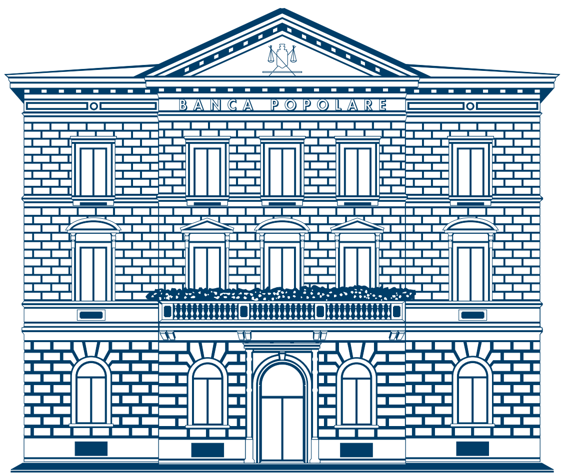
Banca Popolare di Sondrio



ANNUAL REPORT 2019

Banca Popolare di Sondrio

2019 FINANCIAL STATEMENTS
149th YEAR


BANCA POPOLARE

Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING OF 12 JUNE 2020

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

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 1,157,414,409
(Figures approved at the shareholders' meeting of 12 June 2020)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 19 May 2020:
  - – Long-term: BB+
  - – Short-term: B
  - – Viability Rating: bb+
  - – Outlook: Rating watch negative
  - – Long-term Deposit Rating: BBB-
  - – Long-term subordinated debt: BB-

- Rating given by DBRS Morningstar to Banca Popolare di Sondrio scpa on 2 April 2020:
  - – Long-Term Issuer Rating: BBB (low)
  - – Short-Term Issuer Rating: R-2 (middle)
  - – Trend: negative
  - – Long-Term Deposit Rating: BBB
  - – Short-Term Deposit Rating: R-2 (high)

- Rating given by Scope Ratings to Banca Popolare di Sondrio scpa on 8 April 2020:
  - – Issuer rating: BBB-
  - – Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

Advisors	ALBERTO CRESPI
	ANTONIO LA TORRE
	ANDREA MONORCHIO
Alternate advisors	DIANA BRACCO
	CESARE MIRABELLI

GENERAL MANAGEMENT

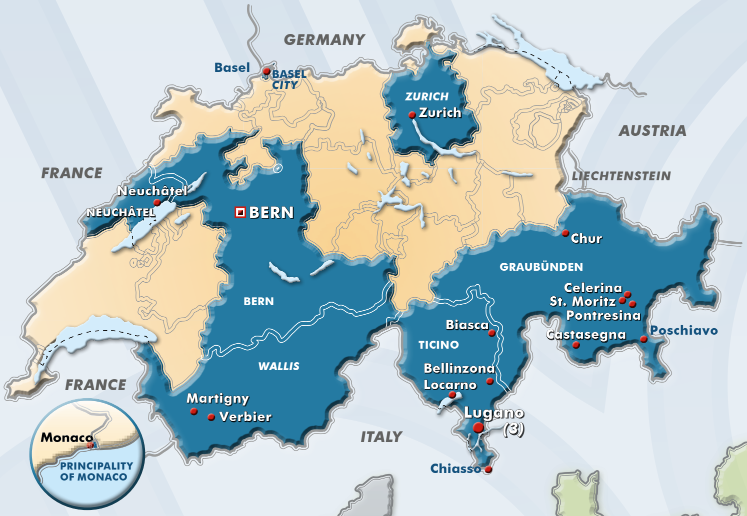
General Manager	MARIO ALBERTO PEDRANZINI
Deputy General Managers	GIOVANNI RUFFINI
	MARIO ERBA
	MILO GUSMEROLI
	CESARE POLETTI

Financial Reporting Officer	MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

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

THE BANKING GROUP IN



BPS (SUISSE)

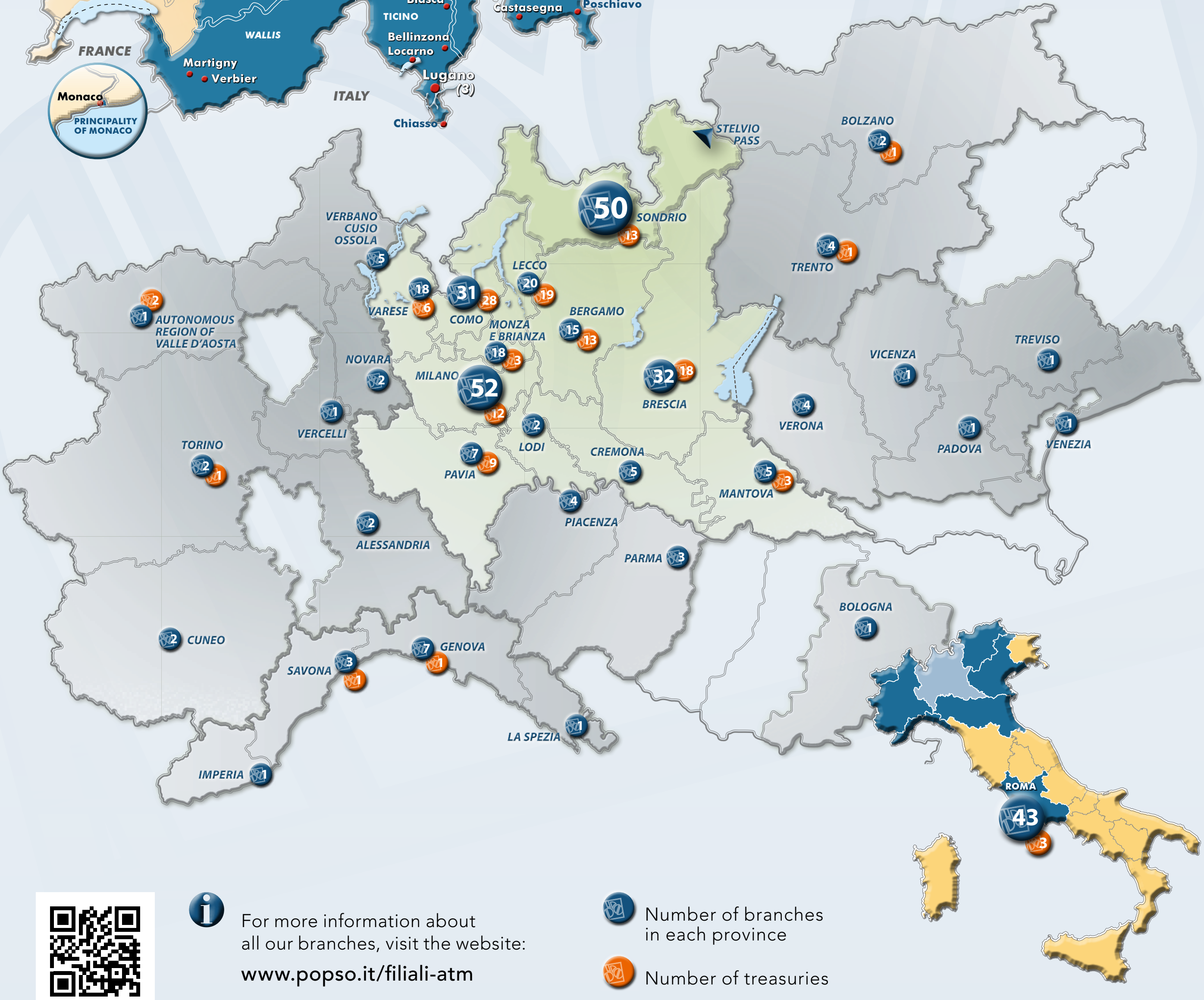
Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO



For more information about all our branches, visit the website:

www.popso.it/filiali-atm

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

GENERAL MANAGEMENT AND HEAD OFFICE
Sondrio, piazza Giuseppe Garibaldi 16
tel. +39 0342 528111 - fax +39 0342 528204
www.popso.it - info@popso.it

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

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO
ALBOSAGGIA via al Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110
BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
CASPOGGIO piazza Milano 13
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - fraz. Ravoledo - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - via Trivulzia 28
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Giacinto Sertorelli 2
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - fraz. San Giacomo - via Nazionale
TIRANO piazza Cavour 20
TRAONA via Valeriana 88/A
TRESENDA DI TEGLIO via Nazionale 57
TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - fraz. Madonna Dei Monti piazza Madonna Del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO traversa Foppa 25
VERCEIA via Nazionale 118/D

AUTONOMOUS REGION OF VALLE D'AOSTA
AOSTA corso Battaglione Aosta 79
PONT SAINT MARTIN via Emile Chanoux 45
SAINT-VINCENT via Duca D'Aosta 9

PROVINCE OF ALESSANDRIA
ALESSANDRIA corso Crimea 21
NOVI LIGURE corso Romualdo Marenco 59

PROVINCE OF BERGAMO
ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÈ via Campofiori 36
BARIANO via Umberto I 1
BERGAMO
Head Office, via Broseta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I 1
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Balilla 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 9
SERIATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA
BOLOGNA via Riva di Reno 58/B

PROVINCE OF BOLZANO
BOLZANO
viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16
MERANO - Comune di Merano - via Portici 192

PROVINCE OF BRESCIA
ANGOLO TERME piazza Caduti 3
BERZO DEMO via Nazionale 14
BIENNO via Giuseppe Fantoni 36
BORNO via Vittorio Veneto 25
BRENO piazza Generale Pietro Ronchi 4
BRESCIA
Head Office, via Benedetto Croce 22
Branch no. 1, via Crocifissa di Rosa 59
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica 6
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE via Zanardelli 5
MONTE ISOLA frazione Siviano 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGLIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 8
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 80
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Guglielmo Testi
AROSIO piazza Montello 1
BELLAGIO via Valassina 58
BINAGO via Roma 9
BIZZARONE via Roma 14
BREGNANO via Giuseppe Mazzini 22/A
BRUNATE via Alessandro Volta 28
BULGAROGRASSO via Pietro Ferloni 2
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 58
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE largo Armando Diaz 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, ACSM - via Vittorio Emanuele II 93
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 4/7
LANZO INTELVI piazza Lanfranconi 22
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbani 237
SAN SIRO via Statale 223
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
VALSOLDA - fraz. San Mamete - piazza Roma 7/9
VENIANO via Alessandro Manzoni 5
VERCANA via Vico 3
VILLA GUARDIA via Varesina - ang. via Monte Rosa

PROVINCE OF CREMONA
CREMA via Giuseppe Mazzini 109
CREMONA
Head Office, via Dante Alighieri 149/A
Branch no. 1, piazza Antonio Stradivari 9
PANDINO via Umberto I 1/3
RIVOLTA D'ADDA via Cesare Battisti 8

PROVINCE OF CUNEO
ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13

PROVINCE OF GENOVA
BUSALLA via Vittorio Veneto 23
CAMOGLI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaseo 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF IMPERIA
IMPERIA viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA
LA SPEZIA via XX Settembre 17

PROVINCE OF LECCO
AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimembranze 20
BARZIO via Martiri Patrioti Barziesi 11
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZIOCORTE corso Europa 71/A
CASATENOVO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulfi 2
IMBERSAGO via Contessa Lina Castelbarco 5
LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO piazza Sacro Cuore 8
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - fraz. Pagnano - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

PROVINCE OF LODI
CODOGNO via Giuseppe Verdi 18/C
LODI via Giuseppe Garibaldi 23

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76

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

PROVINCE OF MILANO

ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1 Ⓣ
BUCCINASCO via Aldo Moro 9
CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO piazza Giuseppe Garibaldi 1
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, *Porpora*, via Nicola Antonio Porpora 104
Branch no. 2, *Barona*, viale Faenza 22
Branch no. 3, *a2a*, corso di Porta Vittoria 4
Branch no. 4, *Regione Lombardia*, piazza Città di Lombardia 1
Branch no. 5, *Bovisa*, via degli Imbriani 54
Branch no. 6, *Corvetto*, via Marco d'Agrate 11
Branch no. 7, *Caneva*, via Monte Cenisio 50
Branch no. 8, *Quarto Oggiaro*, via M. Lessona - ang. via F. De Roberto
Branch no. 9, *A.L.E.R.*, viale Romagna 24
Branch no. 10, *Solari*, via Andrea Solari 15
Branch no. 11, *Università Bocconi*, via Ferdinando Bocconi 8
Branch no. 12, *Baggio*, via delle Forze Armate 260
Branch no. 13, *Repubblica*, viale Monte Santo 8
Branch no. 14, *Palazzo di Giustizia*, via Colonnetta 5 - ang. via C. Battisti
Branch no. 15, *Murat*, via Gioacchino Murat 76
Branch no. 16, *Ortomercato*, via Cesare Lombroso 54
Branch no. 17, *Monumentale*, piazzale Cimitero Monumentale 23
Branch no. 18, *Fiera*, viale Ezio Belisario 1
Branch no. 19, *Giambellino*, via Giambellino 39
Branch no. 20, *Sempione*, via Antonio Canova 39
Branch no. 21, *Politecnico*, via Edoardo Bonardi 4
Branch no. 22, *Sforza*, via F. Sforza 48 - ang. corso di Porta Romana
Branch no. 23, *Certosa*, viale Certosa 62
Branch no. 24, *Piave*, viale Piave 1
Branch no. 25, *Zara*, viale Zara 13
Branch no. 26, *Lodi*, corso Lodi - ang. via S. Gerolamo Emiliani 1
Branch no. 27, *Don Gnocchi*, via Alfonso Capecelatro 66
Branch no. 28, *Corsica*, via privata Sanremo - ang. viale Corsica 81
Branch no. 29, *Bicocca*, piazza della Trivulziana 6 - edificio 6
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9
Branch no. 31, *Isola*, via Carlo Farini 47
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, *Porta Romana*, corso di Porta Romana 120
Branch no. 34, *San Babila*, via Cino del Duca 12
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, *Monti*, via Vincenzo Monti 41
Branch no. 37, *Vercelli*, corso Vercelli 38
Branch no. 38, *Università Cattolica del Sacro Cuore*, largo A.Gemelli 1
Branch no. 39, *Gruppo AZIMUT - Sportello Interno* - corso Venezia 48
MILANO - CCIAA di Milano - via Meravigli 9/B Ⓣ
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1 Ⓣ
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78 Ⓣ
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6 Ⓣ
MILANO - Istituto Neurologico - via Giovanni Celoria 11 Ⓣ
MILANO - I.U.L.M. - via Carlo Bo 1 Ⓣ
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 Ⓣ
MILANO - Pirelli - via Fabio Filzi 22 Ⓣ
PERO via Mario Greppi 13
SEGRATE via Roma 96
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe Ⓣ
SESTO SAN GIOVANNI
Branch no. 1, piazza Martiri di via Fani 93
Branch no. 2, piazza della Resistenza 52
TREZZO SULL'ADDA via Antonio Gramsci 10
TURBIGO via Allea Comunale 17 Ⓣ
VIZZOLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1 Ⓣ

PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35
BELLUSCO via Bergamo 5 Ⓣ
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 5 Ⓣ
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE
Head Office, via Dante Alighieri 43
Branch no. 1, via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Galileo Galilei 1
Branch no. 1, via Alessandro Manzoni 33/A
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9

PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19
NOVARA via Andrea Costa 7

PROVINCE OF PADOVA

PADOVA via Ponte Molino 4

PROVINCE OF PARMA

PARMA
Branch no. 1, via Emilia Est 3/A
Branch no. 2, via Antonio Gramsci 28/A
FIDENZA piazza Giuseppe Garibaldi 24

PROVINCE OF PAVIA

BELGIOIOSO piazza Vittorio Veneto 23 Ⓣ
BRONI via Giuseppe Mazzini 1
CANNETO PAVESE via Roma 15 Ⓣ
CASTEGGIO piazza Cavour 4
CILAVEGNA via Giuseppe Mazzini 2/8 Ⓣ
MEDE corso Italia 2 Ⓣ
MORTARA via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40 Ⓣ
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19 Ⓣ
RIVANAZZANO TERME piazza Cornaggia 41 Ⓣ
ROBBIO piazza della Libertà 33 Ⓣ
STRADELLA via XXVI Aprile 56 Ⓣ
VIGEVANO piazza IV Novembre 8
VOGHERA via Emilia 70

PROVINCE OF PIACENZA

CASTEL SAN GIOVANNI corso Giacomo Matteotti 27
PIACENZA
Head Office, via Raimondo Palmerio 11
Branch no. 1, via Cristoforo Colombo 18
Branch no. 2, piazzale Torino 16

PROVINCE OF ROMA

CIAMPINO viale del Lavoro 56
FRASCATI via Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11 Ⓣ
ROMA
Head Office, *Eur*, viale Cesare Pavese 336
Branch no. 1, *Monte Sacro*, via Val Santerno 27
Branch no. 2, *Ponte Marconi*, via Silvestro Gherardi 45
Branch no. 3, *Prati Trionfale*, via Trionfale 22
Branch no. 4, *Bravetta*, piazza Biagio Pace 1
Branch no. 5, *Portonaccio*, piazza S. Maria Consolatrice 16/B
Branch no. 6, *Appio Latino*, via Cesare Baronio 12
Branch no. 7, *Aurelio*, via Baldo degli Ubaldi 267
Branch no. 8, *Africano Vescovio*, viale Somalia 255
Branch no. 9, *Casal Palocco*, piazzale Filippo il Macedone 70/75
Branch no. 10, *Laurentina*, via Laurentina 617/619
Branch no. 11, *Esquilino*, via Carlo Alberto 6/A
Branch no. 12, *Boccea*, circonvallazione Cornelia 295
Branch no. 13, *Tuscolano*, via Foligno 51/A
Branch no. 14, *Garbatella*, largo delle Sette Chiese 6
Branch no. 15, *Farnesina*, via della Farnesina 154
Branch no. 16, *Monte Sacro Alto/Talenti*, via Nomentana 925/A
Branch no. 17, *San Lorenzo*, piazza dei Sanniti 10/11
Branch no. 18, *Infernetto*, via Ermanno Wolf Ferrari 348
Branch no. 19, *Nuovo Salario*, piazza Filattiera 24
Branch no. 20, *Tuscolano/Appio Claudio*, via Caio Canuleio 29
Branch no. 21, *Nomentano*, via Famiano Nardini 25
Branch no. 22, *WFP - Sportello Interno* -, via Cesare Giulio Viola 68/70
Branch no. 23, *Ostia*, via Carlo Del Greco 1
Branch no. 24, *San Clemente/Colosseo*, via di S. Giovanni in Laterano 51/A
Branch no. 25, *Parioli*, viale dei Parioli 39/B
Branch no. 26, *Tritone*, via del Tritone 207
Branch no. 27, *Prati*, piazza Cavour 7
Branch no. 28, *Prenestino/Torpignattara*, piazza della Marranella 9
Branch no. 29, *FAO - Sportello Interno* -, viale delle Terme di Caracalla 1
Branch no. 30, *IFAD - Sportello Interno* -, via Paolo Di Dono 44
Branch no. 31, *Campus Bio-Medico di Roma - Policlinico*, via A. del Portillo 200
Branch no. 32, *Monteverde Vecchio*, via Anton Giulio Barrili 50/H
Branch no. 33, *Trastevere*, piazza Sidney Sonnino 40
Branch no. 34, *Gregorio VII*, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, *Parione*, corso Vittorio Emanuele II 139
Branch no. 36, *CONSOB - Sportello Interno* -, via G. B. Martini 3
Branch no. 37, *Trieste/Salario*, via Tagliamento 37
Branch no. 38, *Gruppo AZIMUT - Sportello Interno* - via Flaminia 133
ROMA-Biblioteca Nazionale Centrale-viale Castro Pretorio 105 Ⓣ
ROMA - Università Foro Italico - piazza Lauro De Bosis 15 Ⓣ

PROVINCE OF SAVONA

ALASSIO via Giuseppe Mazzini 55
ALBISSOLA MARINA via dei Ceramisti 29 Ⓣ
SAVONA via Antonio Gramsci 54
VARAZZE via Goffredo Mameli 19

PROVINCE OF TORINO

CANDIOLO via Torino 3/A Ⓣ
TORINO
Head Office, via XX Settembre 37
Branch no. 1, via Luigi Cibrario 17/A bis

PROVINCE OF TRENTO

ARCO via delle Garberie 31 Ⓣ
CLES piazza Navarrino 5
RIVA DEL GARDA viale Dante Alighieri 11
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana
TRENTO piazza di Centa 14

PROVINCE OF TREVISO

TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO
BESNATE via Libertà 2 Ⓣ
BISUSCHIO via Giuseppe Mazzini 80
BRUSIMPIANO piazza Battaglia 1/A Ⓣ
BUSTO ARSIZIO piazza Trento e Trieste 10
CARNAGO via Guglielmo Marconi 2
CASTELLANZA corso Giacomo Matteotti 2
CUGLIATE FABIASCO via Pagliolico 25 Ⓣ
GALLARATE via Torino 15
GAVIRATE via Guglielmo Marconi 13/A
LAVENA PONTE TRESA via Luigi Colombo 19
LONATE POZZOLO via Vittorio Veneto 27
LUINO via XXV Aprile 31
MARCHIROLO via Cavalier Emilio Busetti 7/A
PORTO CERESIO via Giacomo Matteotti 12 Ⓣ
SARONNO via San Giuseppe 59
SESTO CALENDE piazza Giuseppe Mazzini 10
SOLBIATE OLONA via Vittorio Veneto 5
SOMMA LOMBARDO via Milano 13
VARESE
Head Office, viale Belforte 151
Branch no. 1, piazza Monte Grappa 6
Branch no. 2, via San Giusto - ang. via Malta
VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12 Ⓣ
VIGGIÙ via Saltrio 2 Ⓣ

PROVINCE OF VENEZIA

VENEZIA Sestiere Santa Croce, Fondamenta Santa Chiara 520/A

PROVINCE OF VERBANO-CUSIO-OSSOLA

CANNOBIO viale Vittorio Veneto 2/bis
DOMODOSSOLA piazza Repubblica dell'Ossola 4
GRAVELLONA TOCE corso Guglielmo Marconi 95
VERBANIA - Intra, piazza Daniele Ranzoni 27
VERBANIA - Pallanza, largo Vittorio Tonolli 34

PROVINCE OF VERCELLI

VERCELLI piazza B. Mazzucchelli 12

PROVINCE OF VERONA

BARDOLINO via Mirabello 15
PESCHIERA DEL GARDA via Venezia 40/A
VERONA corso Cavour 45
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

PROVINCE OF VICENZA

VICENZA corso Santi Felice e Fortunato 88

TEMPORARY BRANCHES

MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7 1
NUOVO POLO FIERISTICO - corso Italia Est
Strada Statale del Sempione 38 - Rho/Pero - tel. 02 45402082

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BANCA POPOLARE DI SONDRIO (SUISSE)

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

GENERAL MANAGEMENT

Lugano, via Giacomo Luvini 2a — tel. +41 58 855 30 00, fax +41 58 855 30 15

HEAD OFFICE

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

BRANCHES AND AGENCIES

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Principality of Monaco: MONACO

FACTORIT SPA

Factoring - working capital solutions, credit risk protection and accounts receivable book-keeping - Branch offices in: Milano, Torino, Padova, Bologna, Roma and a network of foreign correspondents in over 90 countries. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.
Headquarter: Milano, via Cino del Duca 12
tel. +39 02 58150.1 - fax +39 02 58150.205
www.factorit.it - info@factorit.it

BANCA DELLA NUOVA TERRA SPA

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Head Office: Roma, via Baldo degli Ubaldi 267
Toll-free number 800-77 00 33
www.bancanuovaterra.it - infobanca@bancanuovaterra.it

PIROVANO STELVIO SPA - The Ski University

Quarto Pirovano Hotel - Stelvio Pass (m 2.760-3.450) - Bormio (SO)
Holiday Apartments - Apartments "Pirovano" - Apartments "Chalet Felse" - Bormio (SO) (CIR: 014009-REC-00017/18)
Registered and Administrative Office - Information and Booking Office
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www.pirovano.it - info@pirovano.it

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Ⓣ Treasury - Updated to 1 May 2020

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842,
Official List of Cooperative Banks no. A160536, Official List of Banking Groups no. 5696.0,
Sondrio Companies Register no. 00053810149 – Share capital € 1,360,157,331,
made up of 453,385,777 ordinary shares – Reserves: € 983,893,092.

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the annual general meeting (AGM) at the head office, Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Thursday, 11 June 2020 and, if necessary, in second calling again at the head office, Piazza Garibaldi 16, Sondrio, at **10.00 a.m. on Friday, 12 June 2020**, to discuss and resolve on the following

AGENDA

1) Presentation of the financial statements as of 31 December 2019: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2019;
2) Resolutions on compensation matters:
   a) Approval, pursuant to the supervisory regulations, of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;
   b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on remuneration policies and the compensation paid;
   c) Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2020;
3) Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;
4) Determination of directors' emoluments;
5) Appointment of five Directors for the three-year period 2020-2022;

6) Appointment for the remainder of the three-year period 2019-2021 of an advisor and reconstruction of the number of members of the Advisory Committee.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is comprises 453,385,777 ordinary shares. There are 164,332 shareholders with voting rights. The Bank holds 3,650,000 treasury shares.

Attendance at the Meeting

Considering the containment measures imposed by government decree to tackle the emergency caused by the COVID-19 pandemic, having regard for the fundamental principles intended to protect the health of Bank shareholders, employees and senior managers and, therefore, pursuant to art. 106, paragraph 6, of Legislative Decree 18 dated 17 March 2020, entitled persons may participate at the Meeting, without access to the meeting rooms, **solely via the Representative designated pursuant to art. 135-undecies of Legislative Decree 58 dated 24 February 1998** and in the manner described below.

Remote or correspondence voting procedures will not be used.

The Directors, the Statutory Auditors, the Meeting Secretary, the Representative of the Independent Auditors and the Designated Representative will participate in accordance with the containment measures established by law, including if necessary by the use of remote conferencing systems in compliance with the current instructions in force.

Pursuant to arts. 13.2 and 27 of the articles of association, shareholders are entitled to participate in and vote at the Meeting, without access to the meeting rooms and solely in the manner described below, if they have been recorded on the shareholders' register for at least ninety days and have delivered to the head office of the Bank, at least two working days prior to the date of the meeting in first calling, the declaration that the appointed intermediary holding the shares on deposit is required to make to the issuer. In any case, art. 83-sexies, paragraph 4, of Legislative Decree 58/98 (Consolidated Finance Act) applies.

This declaration is not required from shareholders who have deposited their shares with the Bank or with Banca Popolare di Sondrio (SUISSE) SA.

Each shareholder has the right to just one vote, however many shares are held.

Participation via the Representative designated pursuant to art. 135-undecies CFA

Persons with voting rights that intend to participate in the Meeting must arrange to be represented, free of charge, by the Representative designated pursuant to art, 135-undecies CFA (the «Designated Representative») by granting a specific proxy containing voting instructions for some or all of the proposed resolutions on the agenda. The proxy will only be effective in relation to the proposed resolutions for which voting instructions were given. The proxy must be granted to the Designated Representative by the end of the 2nd trading day prior to the date of the Meeting, in the manner indicated and using the specific form available from the website of the Bank, www.popso.it/assemblea2020, which also states how those entitled can grant the proxy and also revoke, by the same deadline, the proxy granted and the voting instructions given.

The Designated Representative identified by the Bank is Computershare S.p.A., with offices at via Nizza 262/73, Turin.

Shareholders who are minors can be represented by whoever is their legal representative.

Additional agenda items and presentation of new proposed resolutions

In accordance with article 26 of the Articles of Association, one or more Shareholders recorded on the shareholders' register for at least 90 days, holders in total of not less than 2.5% of the share capital, can ask for additional topics to be added to the agenda, or present proposed resolutions on matters already on the agenda, within 10 days of publication of the Notice of Meeting, on the basis and with the timing established in art. 126 bis of Legislative Decree 58/98, Consolidated Finance Act.

Considering the current emergency, applications must be presented in writing, or sent by registered letter with proof of receipt to the head office of Banca Popolare di Sondrio scpa, at piazza Garibaldi 16, Sondrio, or sent by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line the wording «2020 Meeting – additional agenda items/proposed resolutions».

The requests should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

Shareholders wanting to add items to the agenda should prepare a report summarising the reasons for the new topics that they would like to propose for discussion, or the reasons for additional motions that they would like to propose on matters already on the agenda. This report must be submitted, in the manner described above, no later than the deadline for submitting the requested addition.

Any additional agenda items or new proposed resolutions regarding matters already on the agenda will be made known, at least fifteen days prior to the date fixed for the Meeting (i.e. **by 27 May 2020**), in the same ways as those envisaged for the publication of this notice. At the same time, the reports prepared by the parties requesting the additions and/or the new proposed resolutions will be made available to the public, together with any considerations made by the Board of Directors, in the same ways as those envisaged for the Meeting documentation.

It is not permitted to add items to the agenda for those topics on which the Shareholders' Meeting has to vote, in accordance with the law, on the proposal of the Board of Directors or on the basis of a project or a report prepared by the Board, other than those mentioned in art. 125-ter, paragraph 1, of Legislative Decree 58/98, Consolidated Finance Act.

Even if persons entitled to vote represent less than one-fortieth of the share capital, they may still present proposed resolutions individually and/or make voting declarations on items on the agenda.

Given that participation at the Meeting is only allowed via the Designated Representative, these proposals must be presented - having regard for the current emergency - in the manner described above by 22 May 2020. After checking their relevance with respect to the items on the agenda, as well as their proper and complete nature with respect to the applicable regulations, the proposals will be published on the website of the Bank by 27 May 2020, so that those entitled to vote can express themselves in an informed manner, taking account of the new proposals, and therefore allow the Designated Representative to collect any voting instructions in their regard as well.

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «eMarket STORAGE» authorised storage mechanism (www.emarketstorage.com) and on the Company's website at www.popso.it/assemblea2020 by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Appointment of five Directors for the three-year period 2020-2022

With reference to paragraph 5) on the agenda for the Shareholders' Meeting – Appointment of five directors for the three-year period 2020-2022 - the following is the text of art. 35 of the articles of association.
""""

Art. 35

Presentation of lists of candidates

The members of the Board of Directors are elected from lists containing as many candidates as the number of directors; in the lists the candidates are listed with a progressive number.

The lists must be filed at the Company's registered offices within the terms and methods established by current regulations.

The lists must be compiled so as to guarantee the minimum number of independent directors and the gender balance in the Board of Directors resulting from the voting, as per the principles set out by the law and the articles of association, having regard, in the progressive numbering of the candidates, to the election mechanism as set out in article 36.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

The lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

The signature of each presenting member has to be authenticated according to the law or by employees of the Bank nominated for that purpose by the Board of Directors.

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists.

Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""""

Note that current legislation, to which art. 35 of the Articles refers, states that the lists of candidates for the office of director have to be deposited at head office by the 25th day prior to the date of the Meeting.

Lists for the election of the Board of Directors can also be filed electronically by certified e-mail to segreteria@postacertificata.popso.it

It should also be remembered that article 32, paragraph 3, of the articles of association states that:

«The composition of the Board of Directors must ensure gender balance in accordance with current regulations.»

Furthermore, art. 33, paragraphs 1 and 2, envisages that:

«Members of the Board of Directors must satisfy the personal requirements set by the law as well as those set by the oversight regulations for the banks.

At least one fourth of the Directors must also meet the Independence Requirements specified by article 147 ter, fourth paragraph of the Legislative Decree no. 58 of 24 February 1998».

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at www.popso.it/assemblea2020.

In this document, adopted in implementation of the guidelines issued by the Bank of Italy, the Board of Directors has identified the ideal composition of the board in terms of quality and quantity and the profile that candidates need to have for the office of director. This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

Appointment for the remainder of the three-year period 2019-2021 of an advisor and reconstruction of the number of members of the Advisory Committee

Election will be by a majority vote. The names of candidates must be filed at the head office of the Bank not less than twenty-five days prior to the date of the Meeting.

Sondrio, 30 April 2020

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2020 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 8 May 2020.

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

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

The annals of the world economy will certainly not remember 2019 as an especially lively year. As one month melded into the next, it did however become increasingly clear on the high seas of the global economy that certain areas found themselves becalmed - including the European Union unfortunately - while others, such as the United States, managed to sail away on a friendly breeze. Even China, despite the many predictions of a downturn in production, managed to maintain a respectable cruising speed.

Conversely, despite the expansionary monetary policy supported resolutely by the ECB, the Eurozone suffered a certain loss of speed. The trade war between the United States and China, in particularly, undoubtedly weighed heavily on the situation and industry in Europe and, specifically, in Germany could not avoid the effects.

Turning to Italy, the shaky general picture was burdened by the weakness of the manufacturing sector, where investment also contracted. As a result, stagnation essentially returned to our country, with GDP progress measured, at best, in decimals. Following resolution of the government crisis in the summer, the difference in yields between Italian and German government securities was scaled back considerably.

In the banking sector, continuation of the expansive monetary policy continued to squeeze a fundamental source of revenue, while business lending encountered weak demand.

These unfavourable cyclic conditions were not reflected in the flow of new impaired loans, which remained slow. On the other hand, stockmarkets found settled good weather.

The Bank was able to take advantage of the opportunities that arose during the year, offsetting the persistent adverse effects of monetary policy with higher net interest income from commissions and, above all, the results of financial management. Profit therefore rose to 100.695 million, +20.42%. This satisfactory result was achieved after recording provisions for the significant imminent disposal of impaired loans, as part of the derisking strategy.

The rise in profitability accompanies the financial strength of the Bank, with ratios well above the minimums specified by the ECB.

The key statistics summarised below are the result of the intense efforts made by our staff, comprising 2,770 persons, up by 30.

Total assets came in at 36,780 million, -1.04%. Capital and reserves, including valuation reserves and net profit of the period, amounted to 2,518 million, +6.38%.

Direct deposits grew by 4.92% to 29,684 million, while loans to customers total 22,314 million, +3.86%.

Net interest income was 386 million, -11.83%; net fee and commission income reached 282 million, +2.10%. Total income amounted to 777 million, +3.04%.

RESULTS IN BRIEF

(in millions of euro)

Balance sheet	31/12/2019	31/12/2018	Change %
Loans to customers	22,314	21,484	3.86
Loans and receivables with customers measured at amortised cost	22,023	21,243	3.67
Loans and receivables with customers measured at fair value through profit or loss	291	241	21.07
Loans and receivables with banks	2,366	2,217	6.70
Financial assets that do not constitute loans	9,752	11,109	-12.22
Equity investments	620	562	10.36
Total assets	36,780	37,167	-1.04
Direct funding from customers	29,684	28,290	4.92
Indirect funding from customers	32,037	28,619	11.94
Direct funding from insurance premiums	1,608	1,410	14.00
Customer assets under administration	63,328	58,320	8.59
Other direct and indirect funding	9,197	9,839	-6.52
Equity	2,518	2,367	6.38

Income statement	31/12/2019	31/12/2018	Change %
Net interest income	386	437	-11.83
Total income	777	754	3.04
Profit from continuing operations	149	109	37.31
Profit for the period	101	84	20.42

Key ratios (%)		
Cost/income ratio	54.51	55.73
Net interest income/Total assets	1.05	1.18
Net financial income/Total assets	1.56	1.42
Net interest income/Total income	49.61	57.97
Administrative expenses/Total income	56.17	58.18
Profit for the year/Total assets	0.27	0.22
Non-performing loans/Loans and receivables with customers	2.99	3.54
Loans to customers/Direct funding from customers	75.17	75.94

Capital ratios (%)		
CET1 Capital ratio	17.68%	12.64%
Total Capital ratio	21.19%	14.40%
Free capital	1,788	1,182

Other information on the banking group		
Number of employees	2,770	2,740
Number of branches	346	343

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

www.bps-suisse.ch

Factorit

GRUPPO Banca Popolare di Sondrio

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Banca della Nuova Terra

Gruppo Banca Popolare di Sondrio

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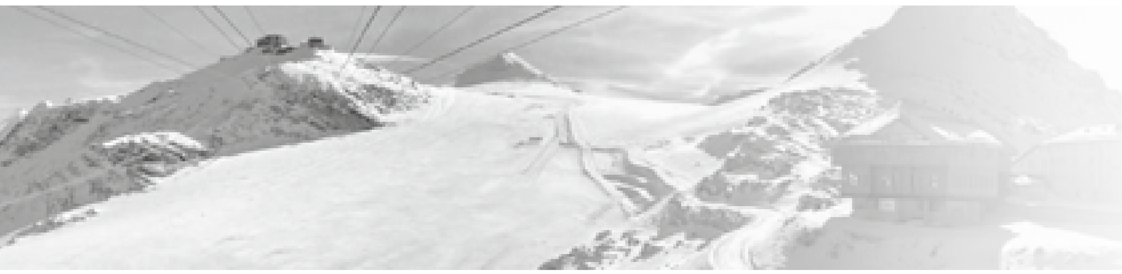

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SNOWBOARD UNIVERSITY

L'UNIVERSITÀ DELLA MONTAGNA

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The BPS stock, which is listed in the MTA, the screen-based market of the Italian Stock Exchange, closed the year with a fall of 19.91%. There are now 165,982 shareholders.

The companies included in our Banking Group, in primis Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Banca della Nuova Terra spa, helped us to expand and requalify the commercial offer, with positive economic results.

TERRITORIAL EXPANSION

Our branch network truly enables us to be a territorial bank and, indeed - considering our expansion over the years from our based in Lombardy to Emilia Romagna, Liguria, Valle d'Aosta, Piedmont, Trentino Alto Adige, Veneto and Lazio – a multi-territorial bank.

At the same time, it is also a priority to follow the evolution of digital banking, with significant investment in equipment and resources. It is increasingly true that customers, especially the younger and more technically aware, no longer view physical branches as their entry point to banking products and services. Accordingly, we make our multi-channel services available to everyone. This does not mean, of course, neglecting or - worse - abandoning direct contact with individuals.

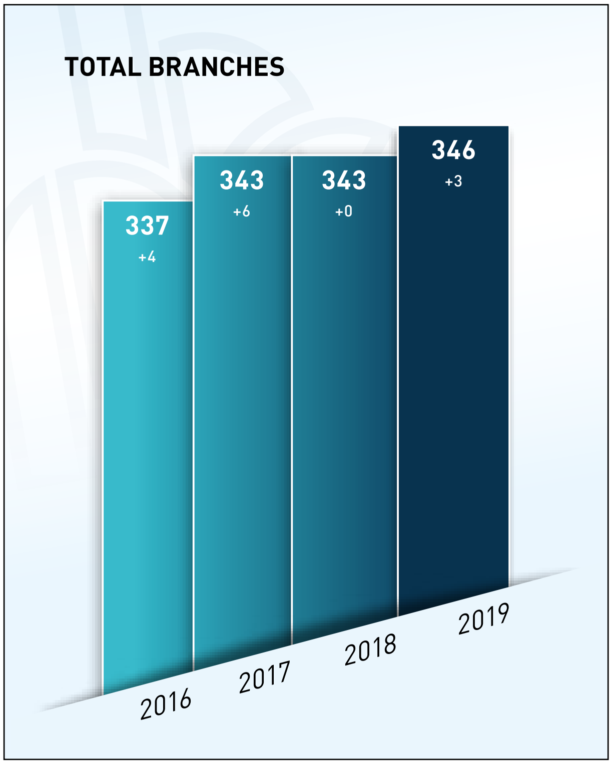
Our branches in fact manage a veritable wealth of business relations and knowledge about sector and local economic dynamics. This value cannot be dissipated in any way, but rather monitored and enhanced. While this is in our interests, it also benefits just as much the communities served and our borrowers too. We work in the knowledge that professional and careful credit management represents, on the one hand, a primary requirements for a solid and profitable business and, on the other, a tool for selecting healthy economic initiatives that benefit the development of our territories.

All this is made possible by the contribution from our branches, which still play a central role in the delicate task of collecting and deploying financial resources. Of course, the wind of change is always upon us, sometimes blowing hard and sometimes coming from unexpected directions, causing us all to remain aware, respond and grow. This is our consolidated approach, above all with heavy investment in the professionalism of our people.

Rather than merely updating our branch furnishings with, in the view of a leading observer, the creation of «a type of lounge-library paradox, with seats not really to be sat on», we have sought to refine the interpersonal and managerial skills of our collaborators, so they can provide each customer with the personal attention needed in this evolving market.

Immersed in the digital revolution, we are able to focus our commitment to customer relations on matters at the highest level. We seek to make the best proposals at branch level, driven both by our central organisations and, in a complementary way, by selected business partners, customising them to fit the needs and preferences of each counterparty. This fundamental task is, and will continue to be, a key activity at local level.

This vision was reflected in the attention paid during 2019 to the branch network, which expanded slightly - by contrast with the system as a whole - and benefited from action to improve and strengthen its managerial and commercial skills.



Three branches were opened during the year, raising the total to 346, before adding the 136 branches that specialise, above all, in the provision of treasury services to institutions and bodies.

Activities at Lissone (MB) were reorganised: the original main branch was transferred to via Dante Alighieri 43, while the historical site at via Trieste 33 has become City branch 1. This expansion, after more than 31 years in the town, enables us to serve better this significant and attractive local market. With about 46,000 inhabitants, Lissone was once the «furniture manufacturing capital» and is now a point of reference for furniture and furnishings. The engineering industries also play an important role, several of which are world renowned.

City branch 1, located in the south of the municipality, on the border with Monza, continues to serve all the customers and businesses that gravitate around Ospedale Policlinico di Monza. The main branch now offers our services in a more central area, within easier reach by numerous businesses located in the northern part of Lissone, including many of our most important counterparties.

Rome branch 38 and Milan branch 39 were opened at the end of September, both within the offices of the Azimut Group.

The Bank has long-established and consolidated relations with the Azimut Group, a leader in the asset management sector, and this opportunity to open two internal branches arose recently. Their activities are reserved solely for the customers of that group and the Bank expects to acquire a significant number of new customers in the near future.

Lastly, 543 ATMs provide territorial coverage, with an increase of 3 during the year.

FUNDING

Inevitably, the past year confirmed the principal dynamics that govern bank funding. Customers have continued to prefer liquidity and short-term instruments, while the more stable forms of investment lost further ground.

Certainly, given the underlying conditions that inform the choices of

TERRITORIAL EXPANSION

LISSONE BRANCH
via Dante Alighieri 43 ang. via Giacomo Matteotti

change of location

LISSONE BRANCH 1
via Trieste 33

ROME BRANCH 38
via Flaminia 133

sharing premises with the AZIMUT Group

MILAN BRANCH 39
corso Venezia 48

sharing premises with the AZIMUT Group

savers and investors, the outcome could hardly be different. The general economic trends were unchanged and the country continues to live with persistent uncertainty, stuck somewhere between a recovery that never happens and fears of recession.

The highly expansive monetary policy implemented in recent years was continued throughout 2019, dashing hopes for a return towards normality with adequate yields on the deployment of resources.

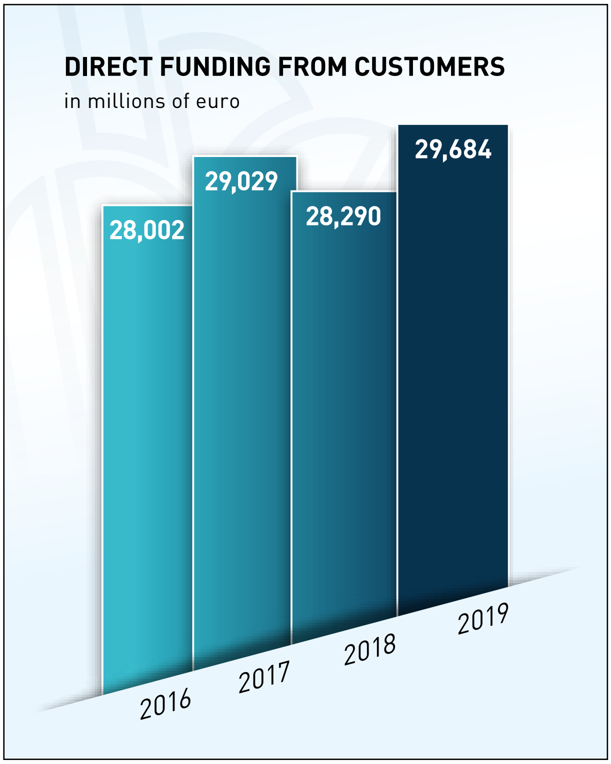
The stockmarkets were buoyed by optimism, attracting financial resources. Investors appeared to ignore the many problems faced by the global economy and politics: conflicts about customs duties and adverse expectations on the Brexit front, to name but a few.

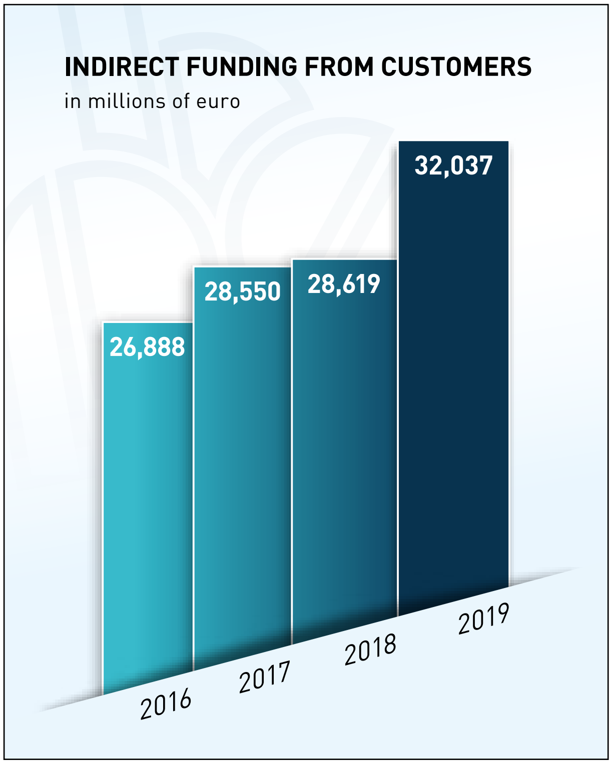
In short, as stated in the Report for last year, these are hard times for savers that seek positive (albeit unsatisfactory) yields, but have a low propensity to accept risk. A comment on this is appropriate: risk and return have always been two sides of the same coin, but - as shown by the negative yields offered on short-dated Italian govs - the most credible theories can be disproved by the facts in the current situation.

Turning to the Bank, we have strived to consolidate further our relations with our customers. As ever, they have confidence in us as a reliable and efficient institution, able to make available customised products and services and, not least, careful to respect the risk appetite of each counterparty.

Direct deposits, comprising liability line items 10b «due to customers» and 10c «debt securities in issue», total 29,684 million, +4.92%.

Marked to market, indirect customer deposits total 32,037 million, +11.94%, due in particular to the positive performance of the financial markets.





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Savings deposits	368,616	1.24	389,052	1.38	-5.25
Certificates of deposit	1,391	0.00	1,594	0.01	-12.76
Bonds	2,691,044	9.07	2,330,053	8.24	15.49
Repo transactions	509,383	1.72	100	–	–
Bank drafts and similar	91,419	0.31	80,899	0.29	13.00
Current accounts	24,429,011	82.30	24,194,471	85.52	0.97
Time deposit accounts	945,335	3.18	806,856	2.84	17.16
Foreign currency accounts	431,964	1.46	487,376	1.72	-11.37
Lease liability	215,362	0.72	–	–	–
Total	**29,683,525**	**100.00**	**28,290,400**	**100.00**	**4.92**

TOTAL FUNDING

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Total direct funding from customers	29,683,525	40.93	28,290,400	41.51	4.92
Total indirect funding from customers	32,036,526	44.17	28,619,195	41.99	11.94
Total direct funding from insurance premiums	1,607,591	2.22	1,410,180	2.07	14.00
Total	**63,327,642**	**87.32**	**58,319,775**	**85.56**	**8.59**
Due to banks	3,456,147	4.77	5,480,393	8.04	-36.94
Indirect funding from banks	5,740,763	7.91	4,358,442	6.40	31.72
Grand total	**72,524,552**	**100.00**	**68,158,610**	**100.00**	**6.41**

Direct funding from insurance premiums increased to 1,608 million (+14.00%).

Total funding from customers therefore amounts to 63,328 million, +8.59%.

Deposits received from banks amounted to 3,456 million, down from 5,480 million. These liabilities are largely linked to long-term refinancing operations with the European Central Bank totalling 2,700 million, as explained in the chapter on «Treasury and trading operations». The securities under administration lodged by banks have increased from 4,358 to 5,741 million, +31.72%.

Total deposits from customers and banks therefore amount to 72,525 million, +6.41%.

The table of «Direct funding from customers» shows the various elements using different criteria and in greater detail than table 1.2 in Section 1 Part B – Liabilities of the notes to the financial statements.

Considering the individual components, current accounts in euro and foreign currency rose to 24,861 million, +0.73%, and make up 83.76% of all direct funding. Bonds rose by 15.49% to 2,691 million, due to the issue of 4 bonds for 294 million and the issue on 28 March 2019, as part of the EMTN programme, of the first unsecured senior preferred bond for 500 million followed on 30 July, again as part of this programme, by a Tier II 10-year subordinated loan of 200 million. Time deposit accounts have grown to 945 million, +17.16%. Currency accounts have fallen to 432 million, -11.37%. Repo transactions have risen to 509 million from practically nothing in the prior year. Savings deposits declined by 5.25% to 369 million. Certificates of deposit were essentially stable at 1.3 million, confirming their marginal status. Bank drafts amounted to 91 million, +13%. The new lease liability line item, deriving from the new method of recognition specified in IFRS 16, amounts to 215 million.

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

LOANS TO CUSTOMERS

As mentioned in the section on the international economy, conditions in the European Union were fairly lifeless during 2019 due, in particular, to the weak growth of the German economy.

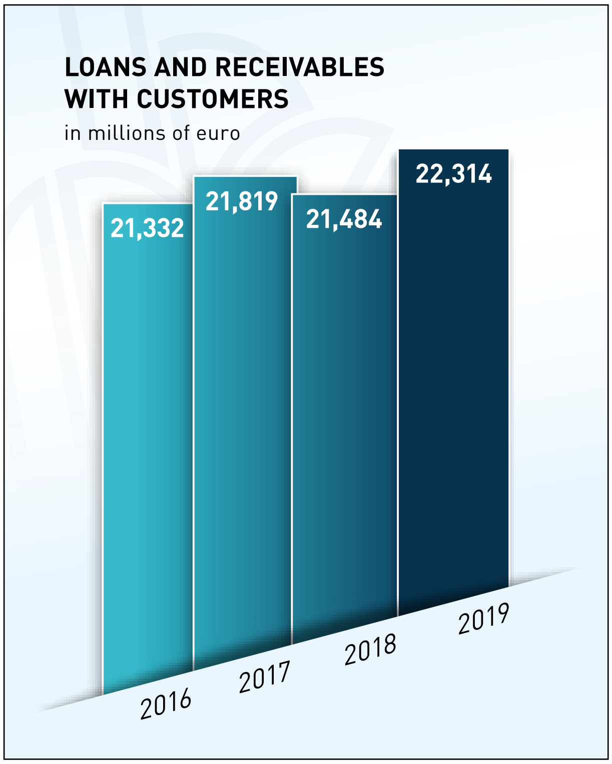
In turn - again as already stated - conditions in Italy teetered continuously between stagnation and recession, with economic activity held in check by the weakness of the manufacturing sector. None of this bolstered the confidence of firms, or helped to stimulate their interest in investment.

As a result, lending to the productive sector by banks contracted during the year. By contrast, home mortgage lending was buoyant due to the low level of interest rates and, just as important, the opportunities available in the property market. Of course, this tendency did not help net interest income, which has traditionally been the principal source of banking revenues. In the meantime, there was further positive news about asset quality, due to another significant reduction in the stock of non-performing loans. Within the banking system, the flow of new impaired loans has continued to decrease as a proportion of total loans.

LOANS TO CUSTOMERS

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Current accounts	3,985,016	17.86	4,402,986	20.49	-9.49%
Foreign currency loans	742,258	3.33	611,516	2.85	21.38%
Advances	410,737	1.84	390,642	1.82	5.14%
Advances subject to collection	239,783	1.07	230,584	1.07	3.99%
Discounted portfolio	4,738	0.02	5,801	0.03	-18.32%
Artisan loans	59,767	0.27	58,858	0.27	1.54%
Agricultural loans	21,079	0.09	20,765	0.10	1.51%
Personal loans	257,344	1.15	250,267	1.16	2.83%
Other unsecured loans	7,650,441	34.29	6,713,557	31.24	13.96%
Mortgage loans	6,971,118	31.24	6,571,184	30.59	6.09%
Non-performing loans	666,629	2.99	759,774	3.54	-13.82%
Repo transactions	1,099,082	4.93	1,204,429	5.61	-8.75%
Fixed-yield securities	206,022	0.92	263,374	1.23	-21.78%
Total	**22,314,014**	**100.00**	**21,483,737**	**100.00**	**3.86%**

This general scenario has many facets, causing the Bank to operate - as ever - with the professionalism and prudence expected by our cooperative mission to serve the households and businesses active in our established territories. This approach is applied both when granting new loans and when managing and monitoring those already made, with increasing efforts to contain the risk profiles involved. With all this in mind, we have not neglected to support our customers, as confirmed by new lending in excess of 3 billion.



The special attention dedicated to problem loans and quantification of the related adjustments resulted in increasing the coverage of non-performing loans, which is among the highest in the Italian banking system.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They equate to the sum of loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20 financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value».

Overall, loans to customers total 22,314 million, +3.86%.

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

The principal line item consists of other unsecured loans that, following an increase of 13.96% to 7,650 million, now represent 34.29% of total lending.

In turn, mortgage loans total 6,971 million, +6.09%, representing 31.24% of the total. This last item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Foreign currency loans total 742 million, +21.38%.

Advances with recourse also made progress to 240 million, +3.99%, as did other advances, +5.14% to 411 million, and personal loans, +2.83% to 257 million. Current accounts are 9.49% lower at 3,985 million. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, went from 1,204 to 1,099 million, -8.75%. Debt securities amounted to 206 million, -21.78%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate.

The ratio of loans to amounts due to customers has fallen to 75.17% from 75.94%.

The improvement in asset quality is partly attributable to the economic cycle, which has only evidenced a modest upturn, but enough to lower the general level of impaired loans. It is also due to the continuing efforts made to strengthen the responsible business functions, with significant investment in equipment and procedures, as well as in the qualitative and quantitative growth of the professional roles involved.

Total net impaired loans - comprising non-performing loans, unlikely-to-pay loans, past due and/or impaired overdrawn exposures – have fallen to 1,516 million from 1,788 million, -15.22%, and now represent 6.79% of loans to customers compared with 8.32% at the end of 2018.

Writedowns of total impaired loans amount to 2,091 million, representing 57.97% of the gross amount, compared with 55.76% at the end of the prior year and 51.18% at the end of 2017. Gross impaired loans have decreased from 4,042 to 3,607 million, -10.76%, not least due to the major write-offs made. The current situation reflects the decisions made by the Bank with regard to NPLs, as discussed in detail in the specific section of this report. The table provides an overview of impaired and performing loans, with comparative amounts at 31 December 2018.

Net non-performing loans, after writedowns, total 667 million, -12.26%, or 2.99% of total customer loans, compared with 3.54% at 31 December 2018. This represents a turnaround after years of growth, although the level is higher than within the banking system as a whole due, in particular, to the crisis in the construction sector and building in general.

Adjustments for the estimated losses on non-performing loans now total 1,570 million, -6.96% over the year, with an improvement in coverage 70.20% from 68.95% previously. This coverage is among the highest in the banking system.

Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 81.10%.

Unlikely to pay loans are credit exposures, other than non-performing loans, for which it is deemed improbable that the obligor will pay its credit obligations in full without recourse by the Bank to such measures as the enforcement of guarantees. They have decreased to 822 million, -15.14%, or 3.68% of total loans to customers, compared with 4.51% previously, while the related adjustments amount to 517 million, -6.23%, with an improvement in coverage to 38.62% from 36.28%. The reduction in total provisions is linked to the transfer to non-performing loans of positions that already had a high level of coverage.

Past due exposures and/or impaired overdrawn accounts, other than non-performing loans or unlikely-to-pay loans, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold, amount to 27 million, -54.27%, and represent 0.12% of the total compared with 0.28% at the end of 2018.

Performing loans amount to 20,798 million, +5.60%, with writedowns of 115 million being unchanged in percentage terms at 0.55%.

Total adjustments therefore amount to 2,206 million, -6.60%.

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2019	31/12/2018	(+/-)	% change
Impaired loans	Gross exposure	3,606,701	4,041,601	-434,900	-10.76%
	Adjustments	2,090,802	2,253,638	-162,836	-7.23%
	Net exposure	**1,515,899**	**1,787,963**	**-272,064**	**-15.22%**
– Non-performing loans	Gross exposure	2,236,777	2,447,319	-210,542	-8.60%
	Adjustments	1,570,148	1,687,545	-117,397	-6.96%
	Net exposure	**666,629**	**759,774**	**-93,145**	**-12.26%**
– Unlikely to pay	Gross exposure	1,339,512	1,520,580	-181,068	-11.91%
	Adjustments	517,380	551,737	-34,357	-6.23%
	Net exposure	**822,132**	**968,843**	**-146,711**	**-15.14%**
– Past due and/or impaired overdrawn	Gross exposure	30,412	73,702	-43,290	-58.74%
	Adjustments	3,274	14,356	-11,082	-77.19%
	Net exposure	**27,138**	**59,346**	**-32,208**	**-54.27%**
Performing	Gross exposure	20,913,540	19,804,194	1,109,346	5.60%
	Adjustments	115,425	108,421	7,004	6.46%
	Net exposure	**20,798,115**	**19,695,773**	**1,102,342**	**5.60%**
Total loans and receivables with customers	Gross exposure	24,520,241	23,845,795	674,446	2.83%
	Adjustments	2,206,227	2,362,059	-155,832	-6.60%
	Net exposure	**22,314,014**	**21,483,736**	**830,278**	**3.86%**

TREASURY AND TRADING OPERATIONS

Stockmarkets

Following a somewhat problematic 2018 in the financial markets, performance over the past year was very positive and the results easily covered the losses accumulated in the prior year. The upturn involved virtually all investment classes in unison: stockmarkets, bonds, commodities and FX.

The stockmarkets performed in double digits, led by the US market, which benefited more than any others from the renewed expansive monetary policies adopted by the principal central banks. The risk appetite of investors also found some relief towards the end of the year, due to the calming of US-China trade relations. Against this background, the US markets rose to record levels with very limited volatility: on Wall Street, Dow Jones Industrial +22.34%, S&P500 +28.88% and Nasdaq actually +35.23%.

European stock exchanges received support from new monetary stimulus by the ECB: cut in the overnight rate, quantitative easing, new special refinancing operations for banks (T-LTRO III), introduction of a tiering system for reserves with the ECB, in order to mitigate the penalising effects of negative rates.

Uncertainties linked to Brexit were a constant thorn in the side, but their effects were essentially counteracted by the improved investor sentiment. Euro Stoxx 50 closed 2019 up 24.78% while, among the other principal markets, the relatively modest performance of London stood out (+12.10%), in view of the ongoing difficulties in getting Brexit over the line. In Italy the FTSE MIB outperformed (+28.28%), despite the political crisis in the summer that resulted in a change of government.

In the rest of the world, the Japanese Nikkei 225 appreciated by 18.20%, while the emerging markets performed well once fears of tighter US monetary policy were allayed. Among these: India +14.38%, Brazil +31.58%, China +36.07% and Russia +45.28%. In short, the MSCI Emerging Markets index closed 2019 up 15.06%.

The government and corporate segments of the international bond markets also strengthened considerably. The monetary policies described were fundamental to this growth, with the principal central banks cutting their official rates and implementing other unconventional measures to increase liquidity and support the macroeconomic situation. In the United States, after a cycle of four quarter-point rises in 2018, the Federal Reserve cut rates by 25 bp on three occasions, returning the Fed Funds rate to the 1.50%-1.75% range. As a result, the yield on 10-year treasuries dropped from around 2.70% at the end of 2018 to about 1.90% at year end; similarly, the two-year rate declined from 2.50% to 1.60%.

In the Eurozone, the above-mentioned ECB expansive action helped to push inflation from 1% towards the medium-term target of 2%. In this context, the installation of Christine Lagarde as the head of the ECB, replacing Mario Draghi towards year end, was seen as a sign of continuity by the markets.

The consequences for the European bond market were far reaching. The yield on 10-year German Bunds fell to an historical low of around -0.70% (from +0.24% at the end of 2018). In the wake of this trend, there was an increase in value and number of Eurozone bonds with negative yields.

The strengthening of the core markets extended to the periphery, including Italy, which experienced two periods of volatility: one in the spring, when the public sector accounts were threatened with infringement proceedings; the other in the summer, at the time of the governmental crisis. This did not prevent fixed-income govs from consolidating at new historical levels: in particular, 10-year rates fell from 2.75% at the end of 2018 to a minimum of around 0.80% in early October (after the installation of the new Executive), before rising in line with global trends towards 1.40%. The Italy-risk parameter, measured by the 10-year BTP-Bund spread, fell substantially from 251 basis points at the end of 2018 to 160 bp at the close of 2019.

As ever, drawing on the abundant liquidity of the Bank and that flooding the system as an effect of the expansionary actions of the ECB, internal treasury management was intensive with a preponderance of lending operations. Their characteristics were in line with those arranged in recent years, albeit with a shortening of durations towards the very short end (overnight, tomorrow-next and spot-next). Activity in the e-MID market continued during the year, although volumes - heavily weighted towards lending, as mentioned - were much reduced compared with 2018. Following introduction of the ECB tiering mechanism, which allows banks to deposit up to 6 times the mandatory reserve at a favourable fixed rate of 0%, the use of this deposit facility has been downsized. The volume of repo operations in the MMF market - guaranteed by the Central Clearing House (CCG) - remained high, with some reduction and again with the predominance of lending transactions.

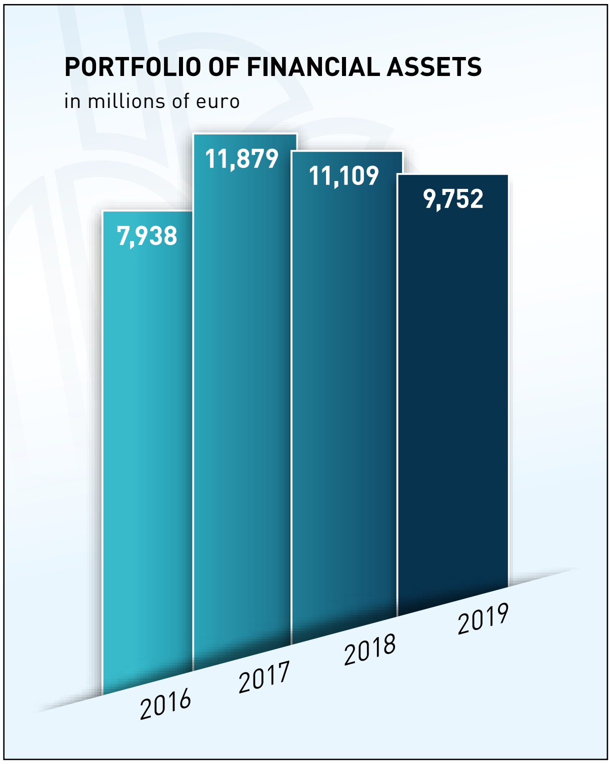
The net interbank position was 1,090 million negative at 31 December 2019, compared with 3,263 million negative at the end of 2018. Cash and liquid assets total 1,153 million, compared with 969 million. At year end, there were two T-LTROs outstanding with the ECB totalling 2,700 million. The first was signed in March 2017 for 3,500 million, repayable on 24 March 2021, in order to participate in the last ECB targeted refinancing operation (T-LTRO II) intended to stimulate the real economy by guaranteeing further liquidity to the banking system; the outstanding balance is now 1,100 million, following the partial repayment made on 18 December 2019. Additionally, the operation for 1,100 million arranged on 23 June 2016 and repayable on 24 June 2020, was repaid in full in December. The other operation outstanding (T-LTRO-III) was arranged for 1,600 million on 18 December with repayment due on 21 December 2022, with quarterly opportunities for early repayment after the first 24 months. Therefore, net of these operations, the net interbank position would have been 1,610 million positive.

Throughout the year, the daily liquidity position reflected substantial deposits with the ECB. The exposure to liquidity risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high-quality financial assets acceptable to the ECB was substantial at all times.

The portfolios of financial assets comprising securities and derivatives total 9,752 million at 31 December 2019, down a further 12.22% after the 6.45% decline reported in the prior year. This reduction was due, above all, to the sale of Italian government securities (short-maturity BTPs and CTZs) from the HTCS segment of the portfolio, with a view to reducing the exposure to Italian sovereign risk. The following table summarises the various amounts involved and the percentage changes.

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

(in thousands of euro)	31/12/2019	31/12/2018	% change
Financial assets held for trading	225,786	263,768	-14.40
of which, derivatives	43,481	44,392	-2.05
Financial assets mandatorily measured at fair value through profit and loss	428,417	398,310	7.56
Financial assets measured at fair value through other comprehensive income	2,590,618	4,423,027	-41.43
Financial assets measured at amortised cost	6,507,311	6,024,006	8.02
Total	**9,752,132**	**11,109,111**	**-12.22**



As in the past, the portfolio mostly comprises domestic government securities, despite the substantial sales of, in particular, securities near to maturity. There was a good volume of inflows and outflows during the year, although less than in the prior year, with most transactions involving the HTCS portfolio.

The purchases made to diversify the portfolio consisted to securities with high ratings (covered and supranational) and corporates (mostly senior and bank subordinated). The expansionary policy adopted by the ECB has lowered yields on public debt to historical minimum levels, with negative or zero yields at the short end. The duration of the portfolio is slightly over three years and six months, in line with the prior year.

Financial assets held for trading

The trading portfolio, which remains very small compared with the years prior to the introduction of IFRS 9, nevertheless saw reasonable volume with the generation of good profits on variable-yield securities ed ETFs, as well as on government securities. This portfolio totals 226 million, down 14.40% from 264 million previously.

(in thousands of euro)	31/12/2019	31/12/2018	% change
Floating-rate Italian government securities	17,590	59,089	-70.23
Fixed-rate Italian government securities	65,108	54,008	20.55
Bank bonds	–	11,109	–
Bonds of other issuers	–	1,925	–
Variable-yield securities	57,212	83,095	-31.15
Mutual funds	42,395	10,150	317.68
Net book value of derivative contracts	43,481	44,392	-2.05
Total	**225,786**	**263,768**	**-14.40**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with shares falling to 57 million from 83 million in the prior year (-31.15%), which represents 25.34% of the portfolio compared with 31.50%; the presence of Italian government securities has fallen to 82.698 million, -26.88%. This reduction mostly involved those at floating rates. The relaxed climate in the financial markets has resulted in a positive net balance between unrealised gains and losses.

Other financial assets mandatorily measured at fair value

The other financial assets measured at fair value have increased by 7.56% to 428 million from 398 million previously. The portfolio relates almost entirely to various types of funds and Sicavs.

(in thousands of euro)	31/12/2019	31/12/2018	% change
Other bonds	6,207	6,233	-0.42
Variable-yield securities	–	2	–
Mutual funds in euro	393,122	371,167	5.92
Mutual funds in foreign currency (USDA)	29,088	20,908	39.12
Total	**428,417**	**398,310**	**7.56**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totalled 2,591 million, -41.43%. The disposal of Italian government securities continued during the year, as part of a process that began in the second quarter of 2018, while the holdings of Spanish government securities have increased. The increase in bonds mostly reflects the purchase of covered bonds and senior banking bonds. Holdings of Italian govs fell by 58.87% to 1,436 million, from 3,491 million previously; they still represent the principal component (55.43%), with diversification represented by fixed-income Spanish and French government securities totalling 305 million. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets. Part of the holding of Nexi shares was sold during the year, with a realised gain of 44.9 million that, in compliance with IFRS 9, was recognised in equity.

No impairment tests to identify permanent losses were required during the year and, accordingly, it was not necessary to recognise any related writedowns in the income statement.

(in thousands of euro)	31/12/2019	31/12/2018	% change
Floating-rate Italian government securities	650,637	592,896	9.74
Fixed-rate Italian government securities	785,471	2,898,339	-72.90
Foreign government securities	304,715	273,356	11.47
Bank bonds	639,045	483,996	32.04
Other bonds	123,909	70,160	76.61
Variable-yield securities	86,841	104,280	-16.72
Total	**2,590,618**	**4,423,027**	**-41.43**

Financial assets measured at amortised cost

The securities measured at amortised cost and allocated to the HTC

(Held to Collect) portfolio total 6,507 million, compared with 6,024 million, +8.02%. Following the substantial increase in the comparative period, holdings rose further during the year as part of work to rebalance the portfolios. In particular, the ratio of Italian and foreign government securities was held essentially stable, while bond holdings were increased. Mainly in the primary market, the Bank subscribed for corporate bonds, covered bonds with high ratings, bank issues backed by government guarantees (Carige), senior preferred and non-preferred banking issues and subordinated bank bonds. The overall duration of these securities is about 3 years and six months.

(in thousands of euro)	31/12/2019	31/12/2018	Change %
LOANS AND RECEIVABLES WITH BANKS	**480,402**	**75,059**	**540.03**
Italian bank bonds	324,241	15,744	-
Foreign bank bonds	156,161	59,315	163.27
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,026,909**	**5,948,947**	**1.31**
Floating-rate Italian government securities	808,060	809,779	-0.21
Fixed-rate Italian government securities	3,613,891	3,599,927	0.39
Foreign government securities	1,436,621	1,418,467	1.28
Other bonds	168,337	120,774	39.38
Total	**6,507,311**	**6,024,006**	**8.02**

Asset management

The positive performance of the financial markets undoubtedly benefited the asset management industry, which touched new records in Italy despite the problems with Personal Savings Plans (PIR), due to related operational restrictions.

The growing weight of foreign funds was confirmed and, in terms of asset class, there was a preference for bonds and balanced funds, rather than equity and flexible funds.

This general scenario influenced the activities of the Bank, with an overall increase in the numbers. The assets managed in various forms total 5,321 million, +6.81%, of which 4,057 million, +13.41%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; assets managed by the Bank total 1,264 million, -9.99%. This reduction was partly due to changes by customers in their investment assets.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank. The following comments relate to our subsidiaries.

At 31 December 2019, equity investments total 620 million, up by 58 million, +10.36%, mainly due to the 54.13 million increase in the interest held in Arca Holding spa.

Banca Popolare di Sondrio (SUISSE) SA (100%). This is a Swiss bank based in Lugano, set up in 1995.

The growth strategy adopted by this subsidiary has produced positive results, confirming the quality of the business decisions made, despite the difficult challenges facing the sector, heightened competition and the adverse economic situation.

There was a satisfactory increase in the aggregates. Customer deposits total CHF 4,974 million (+3%), with direct deposits of CHF 3,099 million (+3%) and indirect deposits of CHF 1,875 million (+4%). Asset management performed particularly well, with the addition of new ESG profiles (sustainable finance) to the range.

Loans to customers rose to CHF 4,498 million (+7%), of which CHF 3,991 million (+6%) with mortgage guarantees almost entirely secured on residential property.

The increase in volumes resulted in a net profit for the year of CHF 16.8 million (+11%), due to growth in the principal sources of revenue while costs remained essentially stable.

The internal organisation was revised further in order to rationalise work and improve efficiency.

There were no changes in territorial presence, with 19 branches in 7 Swiss cantons and the Principality of Monaco, as well as the representative office in Verbier and the virtual direct banking unit.

The home banking service was updated during the year and a new website was launched.

Factorit spa (60.5%). The company operates in the factoring sector and finances and manages commercial, domestic and international loans and receivables, also with guarantees.

Consistent with the objectives established for the year and the approved business development plan, the activities of this subsidiary focused above all on increasing the number of customers, the volume of business and the profitability of lending, while dedicating ever greater attention to asset quality.

In business terms, the presence in the segment dealing with trade receivables and tax credits due from the Public Administration was confirmed and expanded; further work was performed to develop the activities of the company in the market for the production and distribution of energy, with particular reference to the major institutional operators; additional space was allocated to the factoring of summary accounting slips (DCR) in support of the pharmacies; all activities made specific reference to the network operated by the Parent Company and were focused in the more significant areas from an economic standpoint (Lombardy, Northern Italy and Lazio). In terms of product distribution, steady progress was made in the Rome/Lazio area with synergies in the healthcare sector, involving use of the certification portal operated by the Lazio Region, and in the domestic market for the production of television and film sequels; this last product is reserved for leading corporate customers.

The «FA.PA. FatturaPagata®» (invoice paid) project has been completed, offering DIY factoring services to the customers of Banca Popolare di Sondrio. This instrument is principally used to make occasional with-recourse advances against invoices, without notifying the debtor, in certain areas served by the Parent Company. The product is available via the new digital channel for the retail market segment. Having completed the experimental phase, there is now broad knowledge and understanding of all the functions available on this platform and how they work.

With regard to technological/digital research and innovation, work on the Web Factoring Portal was completed during 2019 in order to facilitate operations agreed with Major Debtor Partners, for the reverse factoring of amounts due by them to their suppliers and assigned to Factorit.

Factorit ranks among the leading companies in the sector, being the 5th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 5.05% share of turnover.

The forty-first year of operations generated a profit of 5.1 million. The reduction with respect to 2018 was essentially due to the additional provisions recorded to cover the credit risk on financial assets.

Banca della Nuova Terra spa – BNT spa (100%). This «product-specific» bank focuses on the granting of loans backed by the assignment of one-fifth of salary (CQS) or pension (CQP) and the fulfillment of payment instructions (DEL), while also continuing its traditional activity of making advances to farmers against their grants from the Common Agricultural Policy (CAP Advances).

The activities of this subsidiary focused during the year on development of the assignment (CQ) business, with a doubling of the volume of loans. At the same time, work continued on the consolidation and improvement of the processes and procedures underlying product distribution, which is still mainly carried out via branches operated by the Parent Company. BNT is also activating an ever greater number of agreements with public bodies and private firms. Notably, important insurance partners are also providing business support. The traditional business of making advances to farmers against their CAP grants was further boosted during the year by the agreements signed with leading national Confederations.

As envisaged in the business plan, Banca della Nuova Terra absorbed Prestinuova Spa on 24 June 2019. That company, which operated in the same line of business, was purchased from the Parent Company in 2018. This merger has created one of the largest domestic operators in the CQS/CQP sector. The «new» Banca della Nuova Terra plans to grow further and become one of the leading domestic operators in the consumer credit sector, known for its efficiency, transparency and ethical conduct in support of the financial needs of employees, pensioners and households in general.

BNT closed the year with a net profit of 1.6 million.

Pirovano Stelvio spa (100%). This company operates a hotel at the Stelvio Pass, providing support for summer skiers and education on everything to do with the mountain, while also promoting the beauty of the Stelvio National Park.

The number of guest-days rose by about 5% in 2019 with respect to 2018, including a significant increase in short-term rentals by tourists.

Unfortunately, Pirovano Stelvio must always cope with weather surprises, not to mention the landslides and slips that caused numerous problems in 2019; during the night between 31 August and 1 September, a landslide blocked the road from Bormio until 25 September, and the same stretch was closed temporarily due to another landslip from 21 to 23 October 2019.

In recent years, Pirovano has developed new options for tourists including educational visits to the Stelvio National Park, not least to gain background awareness about the «Great War», and access to the products of the Tesla School of Holistic Naturopathy, encouraging cyclists and motorcyclists to climb the «sacred mountain». This subsidiary is well known for its welcoming atmosphere and hospitality, with a particular emphasis on the eno-gastronomic aspect.

Against the backdrop of the Stelvio National Park, the traditional mass dedicated to the «Madonna of the Snow, Queen of Peace, Keeper of Creation» was celebrated on Sunday, 11 August; Brother Cesare Bedognè, military chaplain of the Carabinieri School for warrant officers and brigadiers in Florence, officiated.

The three Stelvio access roads were closed to traffic on Saturday 31 August for the «Stelvio Bike Day», enabling people to climb the Stelvio Pass on foot or by bicycle with complete safety; the subsidiary participated actively in this event, which was organised by the Stelvio National Park.

Sinergia Seconda srl (100%). Real estate company.

Sinergia Seconda Srl mostly provides operational support linked to the property requirements of the Bank and the Banking group. Via its subsidiaries, Immobiliare Borgo Palazzo srl and Immobiliare San Paolo srl, this company expanded its operations during the year by acquiring real estate assets as part of the management of impaired loans by the Parent Company.

The banking properties held by Sinergia Seconda Srl are all rented, on market terms and conditions, to members of the Banking group. Based on contractual agreements, Sinergia Seconda srl also manages and maintains the units rented for other purposes.

The economic results are positive.

Popso Covered Bond srl (60%). This company was formed in relation to the issue of covered bonds.

Its object is to purchase from the bank blocks of construction and mortgage loans from banks, which are held as fully-separate assets with respect to those owned by the company. As part of the programme of issuing covered bonds implemented by the bank in accordance with current regulations, to the extent of its responsibilities and consistently with its needs, this company manages the assets concerned as a safeguard for subscribers of the securities issued.

Rajna Immobiliare srl (50%). This real estate company is owned jointly with Credito Valtellinese.

It owns a portion of a condominium in central Sondrio. From 1 January 2020, the entire property has been rented to two tenants.

The economic results are positive.

In closing this section dedicated to equity investments, we note that negotiations for the acquisition of Cassa di Risparmio di Cento were terminated in October 2019, as one of the conditions precedent was not satisfied, preventing the agreements signed with the sellers from becoming effective. In particular, the European Central Bank was unable to approve the changes to the articles of association decided at the Shareholders' Meeting of Banca Popolare di Sondrio held on 27 April 2019, which were made in preparation for the execution of the agreements signed with Fondazione Cassa di Risparmio di Cento and Holding CR Cento S.p.A. for the acquisition of control over Cassa di Risparmio di Cento. The situation was notified to the public in a press release circulated on 17 October 2019, to which reference is made for further information.

Related-party transactions

Transactions with related parties are governed by the *Regulation for transactions with related parties* issued by Consob resolution no. 17221 dated 12 March 2010 and subsequent amendments. The information required by this regulation is provided below. These transactions are also governed by the Bank of Italy regulation on *Risk activities and conflicts of interest in relation to associated parties* dated 12 December 2011.

Among various requirements, both regulations envisage the approval and publication of internal regulations available (in Italian) on the website www.popso.it, in the corporate information section entitled *informativa societaria*.

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 13.89% of total loans to customers and banks and financial assets and 1.36% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2019, the Bank's corporate bodies decided the following transactions of greatest significance:

– Release spa, associated company; renewal of lines of credit totalling € 92,000,000 available until revoked; resolution of 11/2/2019;
– Banca della Nuova Terra spa, subsidiary; finance area revolving facility for € 250,000,000 expiring on 24/3/2021; resolution of 22/3/2019;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling € 1,870,916,197 available until revoked; resolution of 22/3/2019;
– Prestinuova spa, subsidiary (later absorbed by Banca della Nuova Terra spa); revolving facility for advances up to € 80,000,000, expiring 15/9/2019; renewal of lines of credit totalling € 140,000,000 available until revoked; resolutions of 22/3/2019;
– Alba Leasing spa, associated company; renewal of lines of credit totalling € 439,028,948 available until revoked; resolution of 1/10/2019;

– Factorit spa, subsidiary; renewal of lines of credit totalling € 3,020,101,500 available until revoked; resolution of 8/11/2019;
– Popso Covered Bond srl, subsidiary; unsecured loan subordinated to the covered bond for € 2,500,000,000 with a duration of 117 months; resolution of 8/11/2019.

In addition, as part of the programme for the issue of covered bonds authorised by the bank's Board of Directors in 2014 and updated in 2019, on 29 November 2019, with effect from 1 December 2019, the Parent Company assigned to Popso Covered Bond srl a portfolio of Performing mortgages amounting to € 352 million.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2019 balance sheet or results with regard to the related-party transactions carried out during 2018; in any case none were atypical, unusual or not on market terms.

In relation with the Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. The notes to the financial statements (Part H, «Transactions with related parties») a summary table also shows the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree 385 of 1 September 1993.

During 2019 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

With regard to the remuneration paid by the bank and its subsidiaries and associates to Directors, Statutory Auditors, the General Manager and Managers with strategic responsibilities, and to their investments in the bank and its subsidiaries, reference is made to the compensation report prepared pursuant to art. 84-quarter of the Consob Regulation issued in Decision 11971 dated 14 May 1999 and subsequent amendments.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

The «Report on Corporate Governance and the Ownership Structure» required by art. 123-bis of Decree 58/98 (Consolidated Finance Act) is available (in Italian) in the Corporate Information («Informativa Societaria») section of the Bank's website (www.popso.it). This document reports, among other things, the fact that the Bank has not adopted the Code of Conduct approved by the Committee for Corporate Governance.

INTERNATIONAL UNIT

In recent years, the world economy has achieved a degree of interconnection among continents and countries without precedent in the history of humanity.

The views and opinions about this complex and pervasive phenomenon are certainly variegated and stem increasingly from the determination of the strongest to protect their national interests above all.

This was clearly demonstrated in the year just ended: the customs duty war between the two leading actors on the world stage derives from differing logic and is closely tied to leadership interests in which the economic dimension is one of the main areas for action. On the other hand, the barriers to free trade have caused problems and difficulties in many different sectors of production, even in countries such as Italy which did not feel involved in the disputes between the United States and China.

In fact, the slowdown in international trade is a matter of serious concern to Italy, which has always relied on exports as a fundamental driver of growth. This was particularly the case in 2019, when GDP growth looked like the prefix to a telephone number.

Against this objectively difficult general background, the role of the Bank has been to encourage and support firms in foreign markets, including those furthest way - not so much geographically as, and above all, culturally - that often pose the greatest political, commercial and currency risks. For this purpose, we have made available to customers the professionalism of our personnel, products customised to meet the most diverse needs, including coverage of the risks inherent in international transactions, and a global network of consolidated partnerships and correspondent banks.

We have also promoted the internationalisation of forms, providing them with numerous and diversified forms of information, education and advice, as well as access to an extensive network of desks present on five continents.

Our One-stop Shop for Internationalisation has organised many different events and services, taking responsibility for the editorial and promotional aspects too, both via traditional channels and using the social media networks.

With a view to providing customers with precise support an constantly updated information about the international markets, one-on-one meetings and company visits were organised during the year, especially for visiting foreign buyers, as well as technical training courses and promotional activities (country presentations arranged by Chambers of Commerce). These initiatives were made possible by the collaboration agreements signed with leading partners at national level.

Great attention was dedicated to our publishing and promotional activities, including the issue of Business Class, a monthly newsletter, as well as the «FX and Rates 2019» and «Forex Calendar» supplements.

Our membership of the Coopération Bancaire pour l'Europe (CBE), an EEIG based in Brussels, has enabled us to offer diversified services to customers interested in European funding projects, calls for tenders and programmes. In particular, with a view to satisfying further the needs of firms, CBE introduced numerous innovations during the year and updated its catalogue of products. The EEIG also developed further an independent service in support of European calls for tenders, working together with numerous counterparties, which has generated good economic returns and enhanced its reputation.

The correspondent banking sector maintained intensive relations with numerous domestic and foreign counterparties, managing the launch of new business opportunities and strengthening those already in place. The network of correspondents was also consolidated, with 1,690 agency relationships and 140 account relationships at year end. At present, we maintain relations with banks in 162 countries around the world.

Efforts were made during the year to give additional visibility to the Representative Office in Shanghai. Once again, China was the ninth largest destination market for Italian exports in 2019 (worth about 13.2 billion) and the largest in the Asia-Pacific area, despite being an extremely complex place to do business. For this reason, we decided to organise a country day dedicated to China, which was attended by many experienced operators.

Since the 1990s, the International Unit has implemented a system of management and governance that is certified compliant with the ISO 9001:2015 standard. Five certifications are held at present, covering various operational areas.

We have renewed our participation in the UN Global Compact, which is the largest initiative promoting corporate social responsibility at a global level, with the sharing of ideas and the commitment of participants to support the 10 universally-recognised principles on human rights, work, the environment and the fight against corruption. Our participation since 2004 is at signatory level, which characterises those participants that are principally committed with their national boundaries. As a founding member of the Italian network, which now counts 279 signatories (220 firms – 59 non-business) and 61 members, we attended the meeting held in Milan during May to elect the members of the Executive Council.

COMMERCIAL SERVICES AND PROJECTS

Our Bank historically serves local communities, meeting first of all the demand for loans from households and businesses. Building ion this «traditional» architecture, we have steadily grafted on the offer of numerous financial, insurance and provident services and payment systems; these quality products helped to strengthen customer confidence in us and develop mutually-satisfactory working relations.

Over the years, the Bank has evidenced in many ways our ability to keep up with the times, often indeed anticipating the moves of competitors in terms of innovation and product quality. At a time when the physical melds into or transforms in the digital world, our products are the result of detailed inter-disciplinary studies - often supported by experienced specialist companies - and are monitored constantly to ensure their technological alignment as the environment evolves.

SCRIGNOapp

We would now like to tell you about our main initiatives during the year.

The new operational platforms are evolving and becoming more widely used, changing the way we relate to customers and manage their accounts. The trend is constant: digital banking is much more common and not just for carrying out so-called basic operations. The ability to access accounts, even just for query purposes, at any time of the day via SCRIGNO*app* encourages adoption of this on-line channel. The functions offered for the management of accounts and, in particular, those that make it possible to give remote instructions for credit transfers (even instant), top-ups and payments to the Public Administration (both local and central, via the F24 form, or to pay car taxes) are now much more familiar and used.

Additional opportunities were introduced during 2019, with a view to improving and consolidating usage of the Internet banking service.

The new «Shop Window», designed to enhance customer relations, makes useful information available about the principal services offered by the Bank, as well as the ability to purchase value-added products and services in the areas of insurance and other non-banking activities. Our customers can now purchase payment cards on-line as well. SCRIGNO*app* has grown in terms of available functions, taking advantage of the possibilities offered by instant transfers, which allow smartphones to transfer amounts up to 15,000 euro in seconds, and well as by the pagoPA service, which enables payments to be made to the Public Administration merely by scanning the «QR» code on the payment advice. This App is also available in English to facilitate our international customers.

Substantial investment has of course been dedicated to IT security.

Focus on this key area has result in development of the new SCRIGNO*IdentiTel* App that introduces dynamic linking, being a one-time password (known as OTP plus) generated with a dynamic link to the content. This password is therefore created not only with reference to the device used and the date and time of generation, but also to the amount and beneficiary of the specific transaction.

Arca Fondi Sgr

As stated at the start, the Bank constantly presents products designed to meet needs of every kind.

Among those developed for savers, Arca Fondi Sgr has enriched and updated its range with several new funds: «Arca Cedola Attiva 2024 IX, X, XI», «Arca 2024 Reddito Multivalore Plus VIII, IX, X, XI» and «Arca Opportunità Globali 2024 IV, V, VI».

In 2019, customers confirmed their interest in Arca Previdenza, which is the supplementary pension solution devised by Arca Fondi Sgr that, from the prior year, allows payments via the new «Supplementary Pension» service. In this way, monthly amounts can be transferred from an Arca mutual fund to a position in the pension fund.

Arca Vita

In the insurance field, «Ingegno» is the new multi-sector solution from Arca Vita that combines a sector I component, administered separately, with numerous options: twenty-two external funds within the universe of JP Morgan Funds and JP Morgan Investment Funds, three portfolios invested in JP Morgan Funds and JP Morgan Investment Funds, and three internal funds that primarily invest in ETFs.

SCRIGNO*InternetBanking* has launched «viaggio easy», which is a new travel policy: after accessing the digital banking service, in just a few easy steps it is possible to obtain a quotation, complete the purchase and pay by payment card.

Nexi

The attention dedicated to the changing needs of customers has resulted in enrichment of the content provided by the Nexi credit cards. The spending control function enables holders to fix the maximum amounts spendable by period and by channel, and even block card payments to certain geographical areas. In the Premium segment, the catalogue has been revised and extended with the new *Prestige and Excellence* cards, which offer a series of exclusive services dedicated to those who constantly seek excellence in all aspects of daily life.

www.popso.it

The popso.it portal describes the commercial range proposed by the Bank, enabling browsers to request information about the services of interest to them. Importantly, thepopso.it portal, popsoarte.it and nonsolobanca. popso.it websites, the SCRIGNO*Internet Banking* service and the SCRIGNOapp are all useable by persons with severely limited motor or sensorial abilities.

RISK MANAGEMENT

The situation that we are now currently facing is critical in terms of its complexity and impact. The rapid spread of COVID-19, with its inevitably serious repercussions on the economy and the financial system, is affected numerous countries around the world, shaking up many consolidated paradigms and disseminating fear. The central banks and political institutions are playing their part in attempting to alleviate the effects of the resulting and almost instantaneous slowdown.

The recipe for governing the pervasive uncertainty is solid risk management. These days, it is ever more essential within this changing framework to refine the ability to «know how to read» strategically the principal sources of risk from a fully integrated standpoint.

Against this difficult background, the Bank is acting in full awareness of its own strengths and weaknesses. Satisfactory progress has been made on the asset quality front, as part of an organic derisking strategy. The incidence of impaired positions was in fact reduced considerably over the year; it will fall even further in future, with the planned deconsolidation of a significant amount of «bad» loans. This extraordinary measure will be accompanied by significant action to optimise the internal administrative «machine», in an effort that will now be pursued with even greater determination.

The governance of complexity and change, with the appearance of new types of risk (from «cybernetic» risks to social sustainability and environmental risks), requires banking operators to implement ever more sophisticated methodologies and models in support of their analyses; the increase in risk factors also sharpens the need for intellectual horsepower and tools capable of simulating risk on a forward-looking basis. Despite the many challenges to be tackled, our system for the assessment and monitoring of risk - as constantly consolidated and modernised, of course - has proven suitable to deal with the exposures of the Bank.

The RAF (*Risk Appetite Framework*), which pulls together parameters, guidelines and alert mechanisms, is the compass used to orient policies for the acceptance and management of risk on a prudent basis, consistent with the entrepreneurial model pursued. It also provides a common language for the integration of various business processes and sectors, linking them together in compliance with the established constraints.

The tools for restoration and the resolution of banking crises envisaged, on a preventive basis, by the regulations help to control the risk of operators falling into financial difficulties. These are updated periodically to ensure that the impact analyses and assessments of the effectiveness of the countermeasures available to tackle collapses remain aligned with economic and operational developments. By imposing new MRELs (*Minimum requirement for own funds and eligible liabilities*), the Resolution Authorities seek to establish in advance, for each significant operator, suitable reserves that can be drawn on to absorb the systemic and specific effects of any required bail-ins.

Each year, the ICAAP (*Internal Capital Adequacy Assessment Process*) and the ILAAP (*Internal Liquidity Adequacy Assessment Process*) represent key opportunities to check and explore the degree of resilience, even under stress, of the financial and equity positions of the Group.

Routine controls are supported by an increasingly extensive basket of models, metrics, databases, reports and IT platforms that allow estimates, simulations and checks to be carried out constantly; all this with a view to identifying, defining, modelling and managing with care the risks inherent in our business operations. The alerts and internal information that flow daily between the various business functions and to management level are designed, as in a lymphatic system, to corroborate the proper conduct of business, ensuring that the operational practices and behaviours of individuals remain in tune with corporate values and comply rigorously with the applicable regulations.

Credit and counterparty risks

Work to contain the volume of NPLs reported in the financial statements remains top of the list of priorities, even though their coverage by adjustments continues to be prudent.

Action during the year was increasingly targeted and rigorous, combining the effects of a battery of operational drivers designed, on the one hand, to stem the flow of new impaired loans and, on the other, to reduce the stocks held in the portfolio. The package of measures, made ready in the context of a long-term plan of strategic action, is wide ranging with a view to tackling comprehensively all the principal organisational and procedural aspects involved in managing anomalous positions. The effectiveness of these measures, some still in the implementation phase, is demonstrated by steady improvements in the asset quality indicators.

The internal organisation responsible for pro-actively supervising the management of anomalous or already impaired loans has been further strengthened and rationalised, with the activation of specific decision-making mechanisms and authorisation powers to tackle problem positions that are entirely separate and distinct from those applicable to normal loans. Overhaul of the operational models for managing debtors in difficulty and recovering «bad» loans has resulted in making even more massive recourse to specialist external operators – carefully selected – via the signature of dedicated outsourcing agreements and partnerships, with a view to relieving internal personnel from time consuming and low value-added tasks, while benefiting from the professionalism of persons with consolidated experience in the sector.

Procedures and models for the predictive management of anomalous lending (early warning systems) strengthened; action promoted in relation to specific groups of counterparties with impaired loans in order to accelerate the collection of expected cash flows; introduced new automated systems for the evaluation of forbearance measures, with a view to supporting loan-granting processes both centrally and throughout the network. The additional derisking actions approved by the Board should also help relieve the operational burden.

The work already performed or currently in progress to enhance the loan granting and management processes is also extremely important in this regard. In particular, the Bank seeks alignment with the «*Guidelines for the granting and monitoring of loans*» issued by the ECB last June for public consultation, as well as with its requirements – somewhat pervasive and with considerable impact – for the adoption by lending models and procedures of the new harmonised definition of default (NDoD).

Last May, the ECB authorised the Bank to use our own internal rating system in the context of the AIRB (*Advanced Internal Rating-Based Approach*), which is governed by the prudential regulations for quantifying the capital requirement to cover credit risk. Achievement of this major milestone repays our internal teams for the exceptional efforts made in recent years and allows Popolare di Sondrio to consolidate our strength, with greater flexibility in the allocation of capital without sacrificing growth opportunities or the search for value.

Having completed the work required in order to obtain validation, the new internal models are now routinely used, maintained and monitored as an integral part of our normal credit management processes. A number of enhancements recommended by the Supervisory Authorities are being implemented to make the rating systems even more robust and effective. This work is additional to normal maintenance and methodological improvements, which involve the periodic re-estimation and recalibration of relevant statistical parameters.

Market risks

In accordance with long-established procedures, the market risks faced by the financial instruments held by the Bank are monitored daily. This constant market watch - under globally more relaxed conditions throughout 2019 than in the prior year - is supplemented by an analysis and monitoring tool that, each day, measures statistically the VaR (Value at Risk) of the securities portfolio; periodically, these checks are carried out under extreme scenarios in order to determine how risk changes under highly stressed conditions and, in that way, predict the effects of sudden market tensions.

These metrics, used to quantify the uncertainty that affects the value of financial assets on changes in market conditions, are compared systematically with a complex structure of internal limits that is configured to measure the exposure to risk, both in aggregate terms and at the greatest level of detail. The objective is to contain any impacts that erode profit and capital within pre-determined maximum acceptable losses.

Given their different characteristics and objectives, the analyses consider the instruments held in the trading book separately from those held in the bank book, which are not bought and sold for speculative purposes. Since Italian government securities continue to represent the principal asset, albeit with reduced weighting as a result of the diversification policy adopted, the Bank continues to pay great attention to the dynamics of the «Italy risk» posed by holding domestic public debt instruments.

The various monitoring systems and techniques evolved further during the past year. In particular, configuration and calibration work was carried out on a new IT platform, in production from January 2020, that was acquired to support the use of a more advanced model for calculating the «historical» VaR of portfolios. With respect to the pre-existing «parametric» model, the new approach to measurement is not based on model assumptions but, rather, makes estimates based on the observed changes in market variables in order to reflect more accurately the risks associated with extreme events. In addition, more precise measurements can be made for factors that could not be quantified previously, such as commodity risk, inflation risk and option risk.

Interest-rate risk

Significant improvements were made to the monitoring of interest-rate risk during the year, aligning our control systems with the guidance for good practice issued by the Supervisory Authorities.

The quantitative methodologies already adopted enable the Bank to identify specific summary risk-exposure metrics every month, by measuring the potential impact of significant, unexpected fluctuations in market rates both on the economic value of its assets and liabilities («economic value view») and on interest income («current profits view»).

As part of further optimisation work that start last June, new quarterly measurements have been developed, consistent with the Supervisory requirements, to monitor interest-rate risk in the manner defined in specific guidelines published by the EBA (European Banking Authority); in this context, compliance with the Supervisory Outlier Test thresholds is checked. These are established for the entire European banking system and enable the Supervisor, applying uniform rules, to identify those banks with an especially marked risk profile.

Again in line with the EBA guidance, the refinement of methodologies and calculation tools has been supplemented with additional risk indicators - beyond the pre-existing monthly measurements of the sensitivity of economic value and interest income - in order to identify different sets of internal limits for the exposures to parallel rises and falls in the rate curves, as well as to define more complex systems for monitoring what happens to the risk indicators when scenarios simulate changes in interest rates that do not involve parallel shifts.

Liquidity risk

Both the short-term and structural liquidity profiles of the Group are solid. The management of available reserves and investment portfolios is focused, applying logic that ensures the integrated management of assets and liabilities, on medium/long-term objectives and seeks to preserve financial stability even under scenarios that are particularly unfavourable.

The measurement of liquidity risk is founded on a long-established range of indicators, calculated over different analytical time horizons, that are used to control the principal risk factors from an operational standpoint, as well as to comply with precise regulatory obligations; the latter include, in particular, the quantification of the LCR (*Liquidity Coverage Ratio*) every month and the NSFR (*Net Stable Funding Ratio*) every quarter, as well as the monthly provision of additional liquidity monitoring metrics to the Supervisor in a predetermined reporting format.

With regard to the short-term (so-called "operational") liquidity situation, specific measurements ensure daily monitoring of the cash flow dynamics typical of treasury operations, as well as the availability of call reserves consisting of funds deposited with central banks and the proceeds potentially obtainable from the disposal of assets held. In addition, the impact of various stress scenarios on current operational liquidity is determined every month; these scenarios were revised and supplemented with care during the year, including via the implementation of more specific simulation techniques, consistent with the instructions provided by the EBA.

Medium/long-term (structural) liquidity is monitored every month to ensure that the harmonious matching of funding and lending is maintained; in particular, surveys are conducted on the structural balance of the financial statements, with a focus on specific aspects of risk such as the concentration profile of funding. In addition to intercompany lending, intra-day liquidity movements are also monitored constantly and the specific summary metrics defined by the Basel Committee for Banking Supervision are quantified at the end of every month.

Among various significant activities carried out during the year, the Bank participates in the Liquidity Stress Test (LiST) promoted community-wide by the ECB, recalibrates the system of risk indicators and internal limits and routinely updates the Contingency Funding Plan, which seeks to manage any liquidity tensions faced by the Group.

Operational and IT risks

Daily activities in all areas of the Bank seek, as always, to establish increasingly effective measures for preventing or mitigating the crystallisation of operational risks, whether linked to external factors (such as fraud or natural disasters) or to internal issues. This key objective is addressed by adopting robust tools for monitoring and controlling the potentially critical areas of operations. Such tools are essential in order to identify promptly any vulnerabilities, anomalous trends and/or emerging risk phenomena, especially those that carry a high risk of loss.

The refinements made over the past year include the implementation of new systems for the recognition, classification and reporting of boundary events, on the border between credit risk and operational risk. Full activation of these systems has undoubtedly contributed benefits in terms of recognising potential weaknesses in the processes of granting, managing and recovering loans, so that appropriate corrective actions can be identified.

Changes have been made to the operational loss data collection procedures for processing and recording any economic losses that are deferred temporarily or held in suspense, in order to broaden prudently - in accordance with best practices - the nature of the «operational losses» to be recognised.

The possible operational risks associated with certain important and innovative initiatives - already launched or planned - were the subject of specific and detailed analysis. The objective was to define effective control systems and establish a process for gradually expanding the monitoring tools available.

With regard to ICT risks, the programme of technological modernisation continued in most business sectors, in order to improve operational flexibility, align the IT solutions with the most recent digital innovations and changing internal needs, enhance the security of our information systems, and streamline and calibrate better the services offered to customers. The risks associated with the use of IT services, even on an outsourcing basis, are analysed periodically by experienced personnel and, when appropriate, mitigated by taking suitable countermeasures, such as by upgrading architectures, configurations and networks.

In order to tackle the ever more sophisticated forms of cyber threat, with increasingly numerous and intense attacks against an increasingly digitalised and interconnected system, further steps have been taken to strengthen the prevention and control systems that protect the IT infrastructure; the increased resilience of the ICT devices has made it possible to fend off various attempts to gain unauthorised access to sensitive data owned by the Bank and our customers.

The functionality of on-line banking applications has also been enhanced. In particular, specific software protocols and programmes have been developed in order to integrate with Trusted Third Parties (TTP), and the tools for authenticating customer instructions have been updated, all in compliance with the most stringent requirements of the new EU regulations governing payment systems (the PSD 2 directive). For this purpose, customers now have access to strong «*OTP Plus*» authentication, which provides significant additional protection against the risks of IT fraud.

The quality of our technological solutions has been recognised by renewal of ISO 27001 certification for our information security management systems, which have been developed in compliance with the regulatory requirements governing the protection of personal data.

Lastly in this area, the usual annual comprehensive test of the Business Continuity plan was completed successfully in November for the thirteenth time. This work, including both technical and organisational tests, involved running «critical» processes at one of the back-up sites, with the simulation of such risk scenarios as the destruction or inaccessibility of structures and buildings in which essential equipment or operating units are located, and the non-availability of infrastructure, personnel and important documentation.

In the context of the disaster recovery plan, similar checks covered the specific IT resources intended to mitigate risks associated with the non-availability of critical IT systems. Several data and functionality restoration tests were completed successfully over the past twelve months, involving various components of our IT system.

The existence of these plans and tests provided valid support for the early analysis, required by the Supervisory Authorities, of the impact on operational resilience of the spread of the COVID-19 pandemic, and for determining possible logistical and organisational measures for mitigating its effects on the timeliness of operations.

Reputational and money laundering risks

As always, maximum attention is dedicated to safeguarding the reputation and image of the Bank, which represent an unmeasurable source of value to be defended and augmented every day. This action involves the adoption of suitable control measures, principally founded on tools for the identification and monitoring of all factors that might damage the reputation of the Bank, as well as on a predictive analysis of possible breakdown scenarios, supported by expert opinions from specifically-identified individuals.

Adverse media attention is dedicated to financial advisors that prove incapable of providing investment services consistent with the risk profiles of their customers. Given this, our internal reporting on reputational risk was supplemented during the year by more targeted investigations of the reasons for and outcomes of complaints made by the users of investment services, as well as the related response times, in order to determine - among other factors - the reputation of the Bank in this specific sector with reference to customer perception of our professionalism and business integrity.

In addition, prompted by the growing awareness of the Supervisory Authorities and public opinion about the need for «sustainable finance», as well as by the regulatory requirement to report non-financial performance, our risk management activities now include a more comprehensive analysis of the various risks - mainly strategic and reputational - associated with possible failure to align business policies with the principles of economic, social and environmental sustainability.

Compliance with the anti-money laundering regulations makes another important contribution to safeguarding the reputation of the Bank. In this regard, the Anti-money laundering Function, a specialist control unit tasked with supervising proper compliance with legislative requirements and governing the risks associated with money laundering and the financing of terrorism, carried out a complete review of all related first- and second-level controls during 2019. The objective was to ensure ever greater operational efficiency and effectiveness in the application of these controls, in compliance with the risk-based approach authorised by the regulations.

Updates were also made to the policy documents that specify the concrete decisions made by the Bank, and later extended to other members of the Group, in relation to the various significant profiles. These policies cover organisational and procedural matters, the adequate verification of customers and the retention of data on accounts and transactions, consistent with the evolving regulatory requirements.

The periodic self-risk assessment promoted by the Authorities plays a central role in assessing the incisiveness of corporate action to tackle money laundering. This assessment determines the current and future risk exposures of the various sectors of Group operations, identifying the measures needed to prevent or mitigate them.

Regulatory non-compliance risk

The monitoring of applicable regulations and verification of proper compliance with them by or promoted by the Compliance Unit are key activities in this area. Special attention is paid to the supervision of matters relating to consumer protection and the management of conflicts of interest.

The established operational model for the management of general compliance risks includes specialist controls and the use of experienced personnel in each of the regulatory areas not supervised directly by the Compliance Unit.

This model and its long-established mechanisms were applied even more intensively during the year, in terms of the depth and diversification of analysis, including with regard to the follow-up work performed to check on the progress made to implement the results of previous verification work. Regulatory and operational changes require the constant update and/or maintenance of internal rules and procedures. In this regard, the Compliance Unit dedicates substantial effort to examining the instructions issued on banking transparency, the provision of investment services, the processing of personnel data, usury, insurance broking and payment services.

Another symptom of the progressive broadening of the scope and the consolidation of the role of the Compliance Unit is found in the significant advisory work carried out to ensure the *ex ante* regulatory compliance of business operations, with specific reference to the issue of conformity opinions and attestations, the performance of assessments prior to the launch of new products or services and the participation in working-party meetings/sessions.

With reference to the Banking Group, the Compliance Unit provides key guidance on control matters to the equivalent structures active at other companies, obtaining reports from them on the work performed and their plans for future activities, and coordinating with them in order to check their compliance with the instructions given. Banca della Nuova Terra has outsourced the supervision of regulatory compliance to the Compliance Function, which carries out targeted checks and investigations. During 2019 this work ranged from transparency to the processing of personal data, and from usury to the processes adopted for granting credit, covering also the unit responsible for the outsourcing of business services and activities.

Other significant risks

The principal controls also include those addressing possible conflicts of interest that might arise from related-party transactions, as well as the risks associated with equity investments in non-financial companies. These controls are implemented by checking the aggregate exposures in relation to the internal and regulatory limits.

With regard to the former and in application of the provisions of the 9th update to Circular 263 dated 27 December 2006 «New prudential supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which updated Title V – Chapter 5 on «Risk assets and conflicts of interest with related parties», the checks carried out are covered by the «General regulation of the risks deriving from related-party transactions», which describes policies and processes that mitigate the risks accepted at banking group level in relation to related parties. In accordance with the regulatory requirements, the policy is reviewed at least every three years and is made available for inspection by the Authorities upon request.

The Regulation has not been amended since the last update approved by the Board on 23 March 2018. It will be made available to the Shareholders' Meeting and on the institutional website at the following address: www.popso.it/assemblea2020.

Adequacy of the system of internal controls

The duties of the Internal Audit Department, which reports directly to the Board in order to ensure its autonomy and independence, include assessing the completeness, adequacy and functioning of the controls over the risks faced by business processes.

The scope of action by the Internal Audit Department was extended further during the year, not least by recruitment, with audits of the activities of other business structures with control tasks, as well as operational processes of particular significance in terms of the risks accepted.

Particular attention was also dedicated to the subsidiaries. In their regard, a specific office was established tasked with auditing other members of the Banking group. Certain checks were carried out with support from similar functions operating at subsidiary level, in order to verify the consistency of their business conduct with guidance provided by the Parent Company.

Internal audit work focused particularly on the systems for the monitoring of risk, with the targeted analysis of lending and international payments, the adoption of accounting standards for the preparation of financial statements, outsourced activities and, in general, application of the principal regulatory requirements.

With regard to the control of lending risk, specific checks were carried out on the management of non-performing loans and on the internal rating system. Upon specific request from the ECB, detailed follow-up work was performed after its inspection, completed in February 2019, of accounting processes, policies and practices, as well as of individual lending positions attributable to customers in the Corporate and SME segments.

The audit work carried out on the functioning and reliability of the business IT systems was highly topical. This activity was assisted by a specialist ICT Auditing team, which is required to supervise matters of increasing importance in the area of information technology, such as the prevention of cyber crime, operational continuity, outsourced ICT processes and IT security in general.

The Internal Audit Department is also responsible for supporting and directly assisting the work of the Control and Risks Committee and the Supervisory Body established pursuant to Decree 231/2001, while also holding frequent discussions with representatives of the Supervisory Authorities and the Board of Statutory Auditors, which is a fundamental internal control body that frequently requests help from the Internal Audit Department in the performance of its assigned duties.

Again with regard to the control of risk and in addition to all of the above, the Internal Audit Department also carries out the traditional checks on proper functioning of the branch network and the central department of the Bank. This work involves an expert team of inspectors, sometimes working together with the Compliance Unit and the Anti-money laundering Function. The importance of this approach to control was confirmed once again during the year. Activity - both on-site and via distance checks, carried out using a specific system of anomaly indicators - seeks to verify the proper conduct of operations, ensuring their constant alignment with both the regulatory framework and the corporate codes of ethics and conduct.

DISCLOSURES REQUESTED BY CONSOB

The following information is provided at the specific request of Consob, in a communication dated 27 February last, pursuant to art. 114, para. 5, of Decree 58/98 («TUF»).

Update on the derisking activities in progress

On 29 November 2019, the Bank received additional supervisory instructions from the ECB beyond those specified in the usual SREP communication (received on 13 December 2019). These instructions required the preparation of a new strategic plan for NPEs and, therefore, the implementation of operational initiatives designed to reduce significantly the incidence of NPEs on total lending.

That plan was prepared and approved by the Board of Directors on 20 December 2019. The objectives are more ambitious than those of earlier plans, with a view to reducing substantially the stock of NPEs and achieve an NPE ratio of around 6% by 2022. The related implementation work, already well underway, is generating good results.

The principal initiatives include a bulk disposal of non-performing loans totalling about 1 billion, further sales of non-performing loans totalling around 400 million and other impaired loans, mainly those that are unlikely to be paid, and specific internal action to reduce the amount of NPEs. In this regard, numerous steps have been taken to strengthen the NPE Unit within the Group (e.g. models for the predictive management of the more risky exposures, methods for managing outsourcers, specific reports etc.), in order to contain the flows of new impaired positions and, as mentioned, increase recoveries.

The NPE Unit, which reports directly to the Managing Director, focuses on the management and recovery of non-performing loans, in order to optimise the speed and efficiency of recoveries and create further opportunities for the maximisation of value, not least by adopting differentiated recovery strategies for clusters of accounts and/or single names.

Creation of this dedicated Unit, which supports implementation of the disposal plan, confirms the constant attention paid to asset quality by the Group.

The new operational model includes further recourse to outsourcers, in order to differentiate the management of recovery activities by product and customer segment and guarantee effective care for the loan (via the management and monitoring of forbearance), efficient recoveries and, lastly, accounting derecognition.

With regard to the disposal of non-performing loans that is currently being arranged, the operation envisages the formation of a securitisation vehicle whose senior tranches will benefit from government guarantees (GACS). The Significant Risk Transfer communication was sent to the ECB at the end of March 2020 and the rating companies are now carrying out their due diligence work. Although slowed by the healthcare emergency, the related implementation work should be completed by the end of the first half of this year.

The economic effects of the disposal, estimated with reference to the information available at the time of preparing the financial statements, were reflected in the results for 2019. Consistent with international accounting standards, these estimates will be updated during 2020 with reference to the market conditions actually prevailing in the period prior to the disposal date. The effect of the disposals is not reflected in the summary credit indicators (NPL ratio, Texas ratio etc.) at 31 December 2019; on completion, the disposal operation is expected to improve those indicators without any significant effect on the capital ratios.

The new strategic plan for NPEs, under evaluation by the ECB, is aligned and consistent with the equivalent documents prepared for business and capital planning purposes, which were also both approved by the Board of Directors on 20 December 2019.

Description of the areas of governance and risk control that will be strengthened, the initiatives planned and the timing of implementation

On 29 November 2019, the Bank received additional supervisory instructions from the ECB beyond those specified in the usual SREP communication (received on 13 December 2019) and the other communications received following the outcome of on-site inspections. These instructions relate to the need to strengthen certain areas in order to improve: the effective functioning of the Board of Directors, partly by revising the related secretarial structures and implementing specific supporting tools; the organisational structure and support the effective functioning of the governance mechanisms; the Compliance and Internal Audit control functions.

This work falls within the context of the continuous improvements to governance and the control of risks implemented by the Bank. The ECB has requested a further strengthening of these activities, with support from external consultants in such areas as analysis, the identification of improvements and remedial actions, if a need for upgrades is identified, and implementation. As requested by the ECB with regard to the organisational structure and the compliance and internal audit control functions, the Bank engaged external consultants to prepare independent analyses providing support for the strengthening work to be carried out. The Bank has received observations from the above consultants, requested further analysis and discussed their findings and the best ways to implement them.

At the time of preparing this report on 2019, the analytical work has been completed: this identified improvements with regard to working practices, the organisational and governance structure, the tools used to support the work carried out, the resources used, and the information and decision-making mechanisms.

In particular with regard to the organisation structure, it was decided to reorganise the pre-existing organisational units into internally-consistent areas of governance focused on specific topics; responsibility for these areas of governance was assigned to Chiefs (e.g. Chief Lending Officer), thus strengthening the team that reports to the Managing Director. In certain cases it was not just necessary to reorganise existing units, but also to establish new ones (e.g. new support units for the recovery of impaired loans, new functions for supervising Group relations with the markets and investors). Further work is underway to strengthen the organisation (in the strictest sense) and the managerial mechanisms for collaboration among the new areas of governance.

In particular, the Compliance and Internal Audit control functions both need additional staff and, accordingly, internal transfer and recruitment plans have been prepared, including the related training; the assessment, identification and management of risks also need to be improved via more systematic checks, greater standardisation of the approach adopted and a more systematic use of tools for monitoring and tracking the results of the checks performed. The transfer, recruitment and training plans have already been implemented in large measure.

Additionally, other action in relation to working practices and support tools has been completed (e.g. by creating a new system for reporting and tracking information). Further strengthening activities are in progress at the time of preparing this report.

All implementation work will be completed by the end of the first quarter of 2021.

The Supervisory Authority is kept informed and the results of the analyses carried out are discussed on a case-by-case basis.

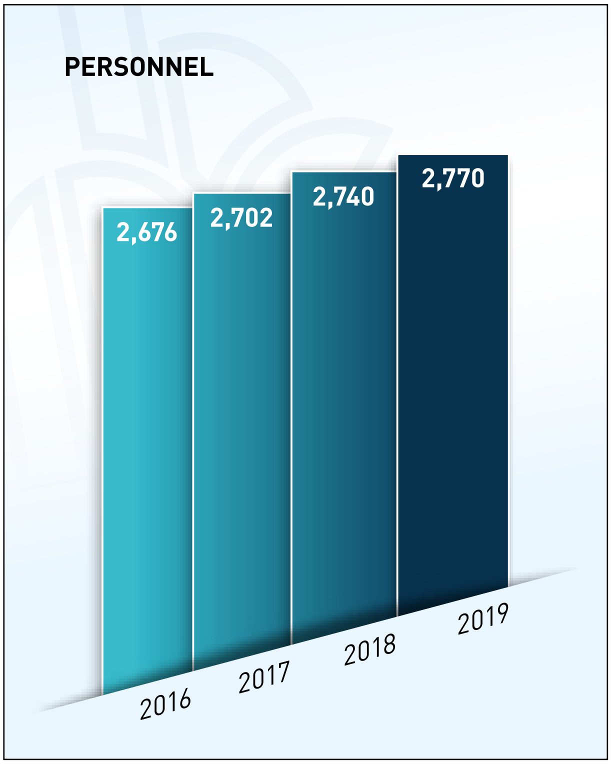
HUMAN RESOURCES

Every year, a short section of the annual financial report is dedicated to the personnel of the Bank, not only in terms of the work performed and the costs incurred, but also to recognise appropriately the true strength of the Bank. Over time, this distinctive quality of our annual report has been recognised and appreciated by shareholders, customers and stakeholders in general.

In this area, Banca Popolare di Sondrio is a well respected part of the economy and society, known as a solid and efficient business that, increasingly often, emerges and stands out in the general banking arena as a group of men and women who, every day, strive with sensitivity to assist our customers while remaining open to discussion and improvement.

In employment terms, over the past twenty years and even more, the number of persons employed by the Bank has increased without break: not due to indiscriminate expansion plans or the needless multiplication of roles, but rather to healthy and consistent business growth that has never ignored the value of the human component for economic gain.

At the end of 2019, the Bank employed 2,770 persons - up by 30, +1.09% -, of which 76% work within the branch network and the remaining 24% at



the central offices. The average age of our employees, 41 years and 5 months, and their average length of service, 17 years and 3 months, have increased by 4 and 3 months respectively.

In implementing its institutional role, the personnel department has the delicate task of supporting employees during their induction into the Bank, following a careful and probing selection process, and as they develop their professional skills, helping to draw out their potential and aptitudes.

In passing, we can report that, training is carried out through classroom courses and multimedia tools. In 2019, the former involved 1,903 co-workers, for a total of 41,725 man hours, while the latter involved 2,461 employees, for a total of 90,648 man hours.

The issues to which particular attention has been paid are courses on sector regulations, such as anti-money laundering, banking transparency, MiFID II and insurance intermediation. Training in this area is partly designed to help personnel obtain sales accreditation, as envisaged by the IVASS Regulation.

Classroom training was preferred for lending operations (initial investigation, guarantees, management and control of credit granted, analysis of businesses in difficulty) and NPLs (new definition of default, early warning and forborne); the provision of treasury services; the management of after-sales activity in the area of investment advice.

Multimedia courses were preferred for such topics as privacy, cyber security, transparency, the administrative responsibility of banks (Decree 231/2001), MIFID, market abuses, and anti-money laundering.

During the year, 268 new recruits received basic training. Via a combination of classroom and multimedia courses, they completed sessions on various topics, such as governance of the employment relationship, branch activities, safety at work, banking regulations and techniques, bank products and services, introduction to lending, the securities markets and international business.

Following a long-established tradition, the important collaboration with technical schools and universities active in the territories served by the Bank enabled 177 students to complete internships at our branches and central offices.

Relations with the Trade Unions continue to be based on reciprocal respect.

For completeness of information, the renewal of the national collective employment contract dated 31 March 2015 was signed by the Trade Unions and ABI on 19 December 2019.

PROMOTIONAL AND CULTURAL ACTIVITIES

As a community bank, we have always been close to the needs of the people and our customers in particular, comprising businesses, households and individuals in general.

In order to describe our products and services appropriately, as usual we produced new brochures and publications during 2019 and made explanatory materials widely available to the public. We also organised seminars, meetings and gatherings, in addition to those for firms interested in import/export matters. These are discussed in a separate section of this report.

In terms of the cultural aspects, as ever a focus of attention and effort, our Notiziario magazine stands out for the eminence of its authors, the diverse nature of the topics discussed and the large number of readers (about one hundred thousand for each issue). The first issue in 2019 was a case in point. Among other content, this contained a substantial monograph on Umberto Veronesi, the top-flight Milanese cancer scientist and researcher, whose work represents a beacon of intuition and discovery that revolutionised the approach taken to this disease. This text also occupied the section dedicated to culture in the 2018 Annual Report of Banca Popolare di Sondrio (SUISSE) SA.

«Invitation to the Palace», an annual event promoted by ABI, reached its XVIIIth edition on 5 October 2019. In this context, we invited the public to visit our Stelvio Pass property that, in addition to the local branch, also houses the Carlo Donegani Museum with its wealth of history and memories; our head office, with a number of valuable paintings; and our Luigi Credaro library in Sondrio, which houses many collections of books and other important documents.

To mark the sixth edition of the «Festival of creative culture», also devised and promoted by ABI, we held a meeting at the Luigi Credaro library entitled «Intelligence – Between natural and technological evolution, between mind and emotions, to understand ourselves and the future that surrounds us» in honour of Leonardo da Vinci on the five-hundredth anniversary of his death. This event expanded on the content of our 2019 wall calendar, dedicated to this major personality of the past. Again on this topic, we held a conference on 21 June at which Prof. Pinin Brambilla Barcilon, Master Restorer, discussed the «Restoration of Da Vinci's Last Supper». The event was a great success, crowning our efforts to commemorate Leonardo's life and works.

At the time, numerous participants received an extract of the text written by Prof. Barcilon entitled «Thoughts on the restoration of the Last Supper», which was also printed in the first 2019 issue of our magazine.

A large and attentive audience attended the conference held in Sondrio on 28 May 2019 by Prof. Marco Fortis from Università Cattolica del Sacro Cuore di Milan and director of Fondazione Edison, who spoke on the topic «Italy does not deserve another crisis». This event was promoted together with Arca Fondi SGR.

Again in collaboration with Arca Fondi SGR, Teatro Social in Sondrio hosted an applauded meeting on 25 November with TV host Prof. Paolo Del Debbio on «The fiscal and economic ethic of Ezio Vanoni»; this topic of great interest covered the unforgotten statesman from Morbegno, among the founders of the Italian Republic, who was the architect (among other achievements) of the revolutionary and far-sighted tax reform that bears his name.

Each year, our Bank reminds young people and, indeed, everyone about the importance of saving. We never fail to honour this tradition. In 2019, we invited Prof. Stefano Zamagni, former teacher of Political Economics at Alma Mater Studiorum - University of Bologna and chairman of Pontificia Accademia delle Scienze Sociali, to come to Sondrio and mark the 95th World Savings Day. In the morning, this illustrious speaker addressed over four hundred senior upper school students and their teachers at the Policampus on the «The need for happiness and the betrayal of libertarian individualism».

In the evening, the professor spoke to a broader public in our «Fabio Besta» hall at the head office on «The sense of local development in these geopolitical times». High culture and teaching on 13 December: a day to remember.

We have published a special edition of «The vineyards of Valtellina». This substantial volume, tracing the efforts of local winemakers in their production of superior wines, recognised and appreciated everywhere, derives from the lengthy socio-historical research carried out by Dario Benetti, an architect from Sondrio. The work includes a detail preface by Prof. Marco Vitale, the well-known business economist.

In July, together with the Bormio Contea Rotary Club, our Bormio branch 1 exhibited the «Stazioni» collection of paintings by Wainer Vaccari, a contemporary artist from Modena, whose work has been described by Vittorio Sgarbi, the famous art critic. The exhibition was part of the «La Milanesiana» cultural event, which is a veritable laboratory covering many areas that began in 2000 on the initiative of Elisabetta Sgarbi.

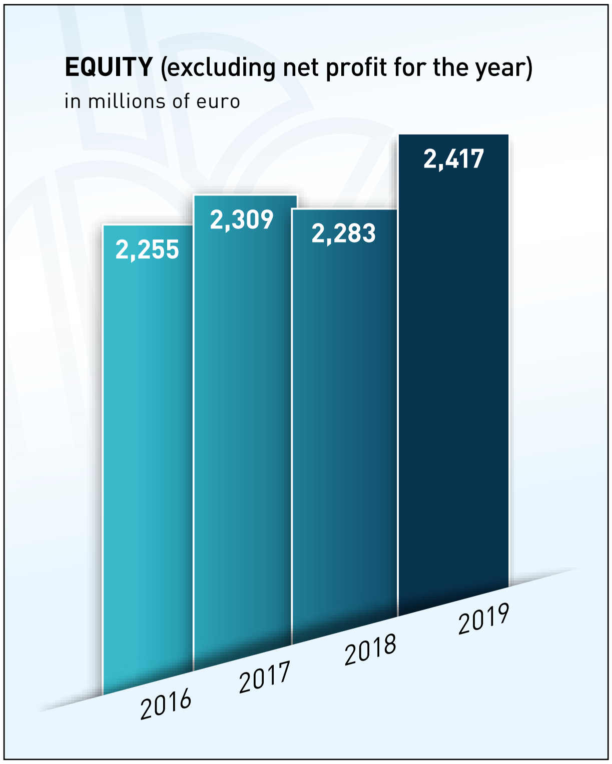
The well-informed public applauded warmly the speeches made at the time.

Pirovano Stelvio, our subsidiary at the Stelvio Pass, was involved in various initiatives during the year. Among the sporting events, the Stelvio Marathon was held on 15 June with participants from sixteen countries; in addition to the Italian athletes, those from Germany, Austria, Switzerland, the United States and Russia deserve special mention. On the Valtellinese side of the Pass, the XXXVth Re Stelvio Mapei was held on 14 July. This successful sporting event drew many thousands to the upper end of the valley, counting the athletes, their relations and supporters in general.

As ever, we have made sure to provide generous help to the needy and those who are suffering. This honours our history as a people's bank, for the people not just in name. In this spirit, we have given assistance in several cases of severe difficulty that merited attention and help. Additionally, due to the Solidarity Current Account, an ethical account that we created in 1996, we have been able to make payments to AISLA, UNICEF, AVIS, AIRC and ADMO.

Lastly, we note that our recreation centre has also completed worthwhile initiatives of various kinds for the benefit if its members, working with self-denial in all areas.

EQUITY



Shareholders' equity at 31 December 2019, inclusive of valuation reserves and the profit for the year, amounts to 2,517.572 million. Compared with the total at 31 December 2018 of 2,366.820 million, this represents an increase of 150.752 million. The change reflects distribution of part of the profit for the prior year and recognition of the profit for the current year, as well as an increase in the valuation reserves for unrealised gains due to the good performance of the financial markets.

Share capital, which consists of 453,385,777 ordinary shares without par value, amounts to 1,360.157 million and is unchanged with respect to the comparative period.

The share premium reserve is also unchanged at 79.005 million.

Equity reserves rose to 990.904 million, +11.90%; this increase of 105.351 million reflects allocation of a good part of the profit for 2018 and the recognition of capital gains on the sale of variable-yield securities that were previously classified among the valuation reserves. In this regard, the Shareholders' Meeting of 27 April 2019 approved the results for 2018 and the distribution of a dividend of 0.05 euro for each of the 453,385,777 shares outstanding at 31 December 2018.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income and the net actuarial gains and losses on the defined benefit plans arranged for employees, now have a positive net balance of 12.132 million having improved from the negative balance of 16.196 million at the end of 2018; this progress was due to the positive performance of the financial markets.

As regards capital adequacy, harmonised rules for banks and investment firms came into force on 1 January 2014 pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced the following limits for capital ratios: 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

Under the powers granted and using the information gathered in the context of the prudential review and assessment process, the ECB can set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Bank was notified in a communication dated 5 February 2019 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 March 2019:

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

– a minimum Common Equity Tier1 ratio of 9.25% (formerly 8.375%), calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%);
– a minimum requirement of Tier1 Capital Ratio of 10.75%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (2.25%);
– a minimum Total Capital Ratio of 12.75% (formerly 11.875%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.50%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank. «Pillar 2 Guidance», which provides a guide to the future evolution of the Group's capital, was added in 2017. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends. In May, the ECB authorised the use of our internal rating system for regulatory purposes, starting from the reports issued as of 30 June 2019. This is the successful outcome of a very long journey, which required substantial investment and has led to a significant increase in our capital ratios. On 13 December 2019, following completion of the annual Supervisory Review and Evaluation Process (SREP) carried out in 2019, the ECB notified the Bank of the new prudential minimum requirements applicable at consolidated level from 1 January 2020. The new minimum Common Equity Tier1 ratio (CET1 Ratio) is 10%, with a minimum Tier1 ratio of 11.50% and a minimum Total Capital Ratio of 13.50%.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,209.890 million at 30 September 2019.

In the interests of full disclosure, the Group decided to take advantage of Regulation (EU) 2017/2395, which allows supervised intermediaries to include, temporarily, in the calculation of their Tier1 capital an additional amount aimed at «neutralising» the effects of the higher accounting provisions required on immediate adoption of IFRS9, which came into force on 1 January 2018. A decreasing percentage of this additional amount will be applied to CET1 capital each year, falling from 95% in 2018, to 85% in 2019, to 25% in 2022 until it is completely eliminated in 2023.

The Group's adequacy ratios at 31 December 2019 (phased-in) are set out below together with the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	15.75%	9.25%
Tier 1 Capital Ratio	15.80%	10.75%
Total Capital Ratio	**18.64%**	**12.75%**

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of numerous listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the economic value of the Group was 3,817 million, which was 975 million more than its consolidated equity of 2,842 million. Further details are provided in Part F «Information on equity» of the notes.

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

– *capital/direct funding from customers*
  8.48% v. 8.37%
– *capital/customer loans*
  11.28% v. 11.02%
– *capital/financial assets*
  25.82% v. 21.30%
– *capital/total assets*
  6.84% v. 6.37%
– *net non-performing loans/capital*
  26.48% v. 32.10%

BPS STOCK

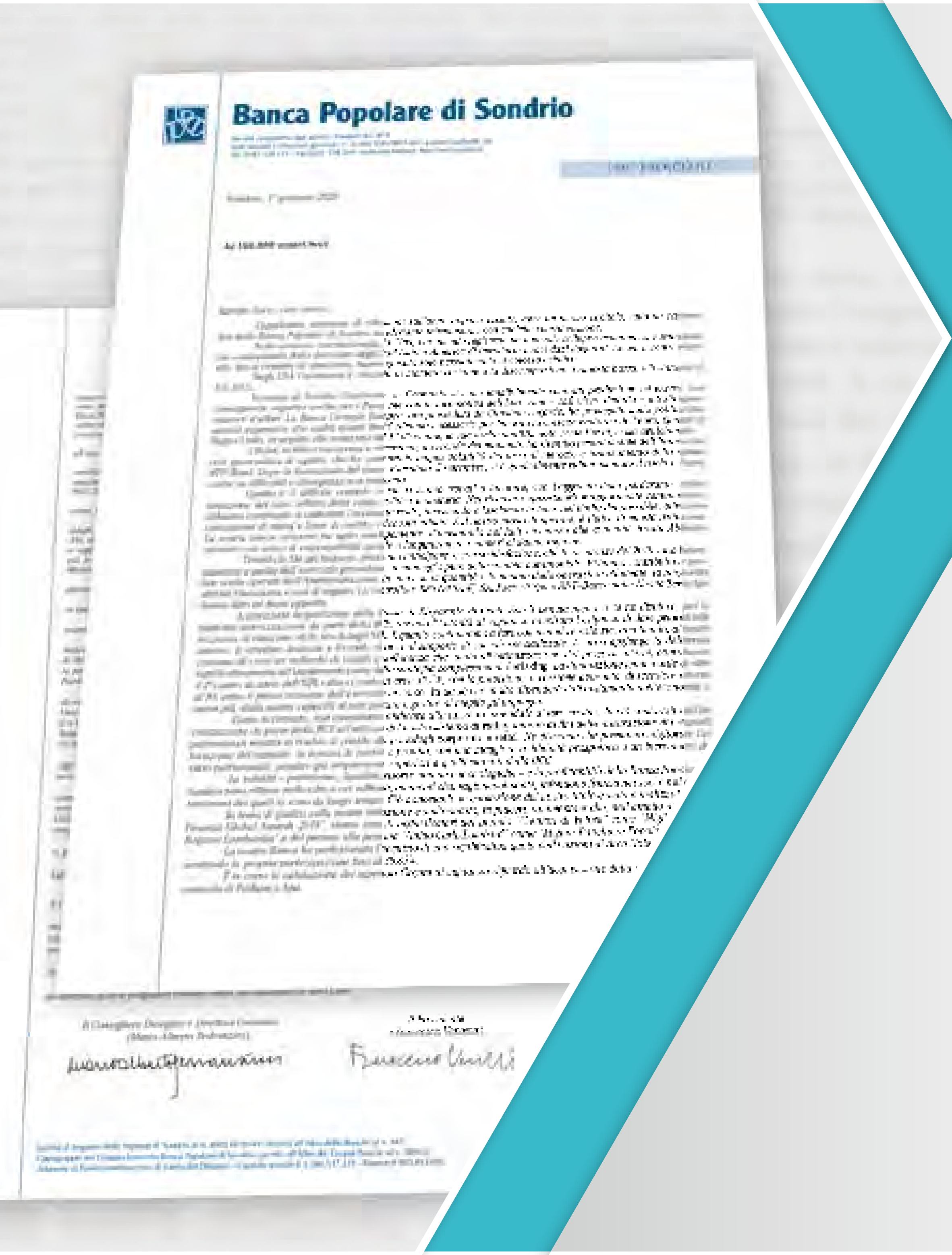
BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2019 down by 19.91%, with a reference price at 30 December of 2.108 euro, compared with 2.632 euro at the end of 2018.

The average daily volume of securities traded on the MTA market of Borsa Italiana during the year was 665 thousand, slightly down from 680 thousand in 2018.

As regards the 3,650,000 treasury shares held at 31 December 2019, their carrying amount of 25.322 million was unchanged since the end of 2018, as no purchases or sales were made.

The shareholder base consists of 165,982 members at 31 December 2019.

Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «The Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the


Banca Popolare di Sondrio

OUR **SHAREHOLDERS**

BPS stock – MTA segment of Borsa Italiana

Source THOMSON REUTERS

spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

RATING

The following tables detail the ratings given by Fitch Ratings, DBRS Morningstar and Scope Ratings to the Banca Popolare di Sondrio Banking Group.

Those from Fitch Ratings are updated to 5 June 2019, while the first ratings from DBRS Morningstar and Scope Ratings were given on 18 and 20 November 2019 respectively.

FITCH RATINGS – issued on 5 June 2019

	RATING
LONG – TERM Measures the probability of default and reflects the Bank's ability to repay medium/long-term loans. Expressed on a scale from AAA to D, with a total of 11 levels.	**BB+**
SHORT – TERM Measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING Aims to assess what the situation would be if the bank were completely independent and could not rely on external support. Expressed on a scale from aaa to d, with a total of 11 levels.	**bb+**

SUPPORT	
Reflects Fitch's assessment of the probability that an external body would provide support to the bank, if needed. The scale has five levels from 1 (best) to 5 (worst).	**5**
SUPPORT RATING FLOOR	
Reflects Fitch's assessment of the minimum level below which it would not lower the long-term rating of the issuer, should it find itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of the long-term ratings. A further possible score, represented by «No Floor» (NF), indicates that Fitch believes it unlikely that aid would come from an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK	
Prospective assessment of possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stable**
LONG-TERM DEPOSIT RATING	
Coefficient that reflects the vulnerability of uninsured deposits to default. Expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**-
SENIOR PREFERRED DEBT	
Coefficient that reflects the probability of default of Senior Preferred bonds expressed on a scale from AAA to D,	**BB+**

DBRS Morningstar – issued on 18 November 2019

	RATING
LONG – TERM	
Measure of the probability of default and indicates the ability of the bank to repay medium/long-term loans. Expressed on a scale from AAA to D.	**BBB (low)**
SHORT – TERM	
Measures the ability of the organisation to which the rating is assigned to meet payments due in the short-term. The scale includes six levels (R-1; R-2; R-3; R-4; R-5and D).	R-2 (middle)
INTRINSIC ASSESSMENT	
Reflects the opinion of DBRS on the intrinsic fundamentals of the bank, considering both quantitative and qualitative elements. Expressed on a scale from AAA to CCC.	BBB (low)
SUPPORT ASSESSMENT	
Reflects the opinion of DBRS on the probability and likelihood of timely external support for the bank, in case of need. The scale has four levels from 1 (best) to 4 (worst).	SA3
TREND	
Prospective assessment of possible changes in the long-term rating over a period of 1-2 years.	Stable
LONG-TERM DEPOSIT RATING	
Coefficient that reflects the vulnerability of uninsured medium/long-term deposits to default. Expressed on a scale similar to that used for the long-term rating (from AAA to D).	BBB
SHORT-TERM DEPOSIT RATING	
Coefficient that reflects the vulnerability of uninsured short-term deposits to default. Expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	R-2 (high)

Scope Ratings – issued on 20 November 2019

	RATING
ISSUER RATING	
Represents a rating of the ability of a bank to meet its contractual financial commitments on a timely and complete basis. Expressed on a scale from AAA to D.	BBB-
OUTLOOK	
Prospective assessment of possible changes in the rating assigned to the issuer over a period of 12-18 months.	Positive

INCOME STATEMENT

2019 closed with a net profit of 100.695 million, up by 20.42% from 83.623 million in 2018.

IFRS 16 came into force on 1 January 2019, replacing IAS 17 which governed leases. As allowed by the standard, the Bank has elected not to restate the comparative figures. It follows that the amounts reported for administrative expenses, depreciation of property, equipment and investment property and interest expense are not fully comparable.

Profit benefited above all from the significant increase in the results from trading in securities, given the buoyancy of the financial markets that, in 2018, by contrast, were penalised by marked volatility which caused unrealised losses on securities to outweigh unrealised gains significantly. Profitability also benefited from a contraction in the adjustments made on loans to customers and the resilience of commissions, despite the reduction in net interest income.

Net interest income

Net interest income decreased by 11.83%, coming in at 385.595 million. The expansionary monetary policy adopted throughout the year reduced bond yields to minimal levels, even negative in some cases, along with interbank rates too, with a significant impact on floating-rate loans to customers. The spread between lending and funding rates continued to tighten, albeit less strongly than in the prior year, due to the intensifying price competition that has reduced the room for manoeuvre regarding the rates to apply.

Interest income fell by 10.08% to 480.297 million, whereas interest expense totalled 94.701 million, down by 2.18%. The limited decline in the latter case, despite a marked reduction in the interest on short-term funding, reflects the cost of the bond issues under the EMTN programme, the increase in the negative rates earned on the liquidity deposited with the ECB and the recognition, following the application of IFRS 16, of lease interest expense of 4.086 million. Ignoring this last amount, net interest income would have been 389.681 million, down by 10.89%.

Net fee and commission income totalled 281.637 million, +2.10%, principally due to the rise in commissions from the placement of financial products including, in particular, asset management and insurance products, but also those earned on current accounts, custodian bank business, collections and payments. By contrast, there was a decline in commissions from the acceptance of orders and the issue of guarantees.

Dividend income amounted to 12.870 million compared with 45.365 million previously, mainly due to the extraordinary dividend of 20.883 million declared by Nexi Spa in the prior year, as part of work to restructure the Group.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 97.196 million compared with the loss of 4.181 million reported in the prior year. This sub-total represents the sum of income statement items 80 – 100 – 110, as detailed below. While fluctuating widely during the year, long-term yields in the Euro-area financial markets trended downwards, together with risk premiums, due to expectations that the highly-accommodative monetary policies will continue.

The portfolio of assets held for trading (line item 80) generated a net profit of 49.301 million, compared with 2.430 million previously. There was a good increase in profits from trading in securities, from 4.698 million to 18.813 million, while gains from foreign exchange fell from 25.184 million to 24.111 million, -4.27%. The results of financial activities also contributed significantly to the difference between unrealised gains and unrealised losses, which improved from 31.157 million negative to 2.576 million positive. The results from derivatives contributed 3.856 million, compared with 3.778 million. Exchange losses eased from 74 thousand to 54 thousand.

The profit from trading (line item 100) was 35.756 million compared with 5.486 million. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost, 23.056 million; financial assets measured at fair value through other comprehensive income, 12.286 million; financial liabilities, 0.414 million.

The net result from other assets and liabilities measured at fair value through profit or loss (line item 110) was 12.139 million positive compared with 12.098 million negative, which included a charge of 5.257 million deriving from the FITD rescue of Carige, which was expensed in full.

Income from banking activities

Income from banking activities amounted to 777.299 million, +3.05% due, as mentioned, to the results of trading in securities. Within this aggregate, net interest income contributed 49.61% compared with 57.97% previously.

Asset quality has continued to improve, with a further reduction in total impaired loans. The new structures and processes activated in relation to the granting, monitoring and control of loans to customers are generating benefits, with a reduction in the default rate and, consequently, in the amount of impaired loans.

Adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 200.696 million, compared with 222.796 million in the prior year, down by 9.92%.

The ECB guidelines for the management of NPLs have invited banks with high levels of impaired loans (gross) to adopt clear and realistic strategies to reduce the stock. This can be done internally, through the establishment of dedicated Working Units, or through direct disposals in the market. The

Bank, which has one of the highest coverages of impaired loans at national level, has strengthened its dedicated Working Unit in this area.

However, this solution implies the retention of impaired loans on the balance sheet and long recovery times compared with selling them on the market.

Disposals result in immediate derisking and, consequently, the immediate improvement of capital ratios, profitability ratios and overall risk management; in addition, they release frozen financial resources and also free-up specialist personnel who can improve the efficiency of the remaining recovery work. Lastly, disposals improve overall asset quality and enhance the risk profile of the Bank.

On 8 August 2019, the Board of Directors of the Bank resolved to sell gross non-performing loans totalling 1 billion and, later, on 20 December 2019, the Board also resolved to sell an additional 400 million of gross non-performing loans and other impaired loans, mostly comprising unlikely-to-pay exposures. These positions were measured using models capable of estimating their potential recoverable value and possible selling price.

The sub-caption adjustments to financial assets measured at amortised cost, which represent exposures to customers and banks in the form of loans and securities, has decreased by 10.82% after contracting by 2.25% in the prior year.

This sub-item totals 202.232 million and, ignoring modest net provisions and write-backs on securities and banks, relates almost entirely to loans to customers.

The small reduction in the adjustment of loans to customers, despite the slowdown in the flow of new impaired loans, reflects the adverse effect of measuring the loans identified for possible sale. The models used to determine the writedowns highlight, in particular, the improvement in the PD of performing loans. In addition to the improvement in the general economic situation, albeit not yet consolidated, this contraction - net of the special case described above - can reasonably be attributed, at least in part, to the various measures adopted by the Bank to improve asset quality and further refine the processes adopted for the measurement of loans. This is particularly the case with regard to the writedowns recorded in relation to non-performing loans, unlikely-to-pay loans and loans that are past due, determined in accordance with the supervisory regulations, and performing loans.

Sub-item 130b relating to financial assets valued at fair value through other comprehensive income made a positive contribution of 1.536 million, compared with 3.970 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, reflects a net loss for the year of 3.288 million.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has eased slightly from 1.06% to 0.91%.

Financial income has therefore increased to 573.314 million, +8.44%.

Efforts have continued to improve the efficiency of the structures and contain costs, which is absolutely essentially given the continuing squeeze on

SUMMARY INCOME STATEMENT

(in thousands of euro)	31/12/2019	31/12/2018	(+/-)	% change
Net interest income	385,595	437,313	-51,718	-11.83
Dividends	12,870	45,365	-32,495	-71.63
Net fee and commission income	281,637	275,832	5,805	2.10
Results of financial activities	97,196	-4,181	101,377	–
Income from banking activities	**777,298**	**754,329**	**22,969**	**3.04**
Net adjustments to loans and financial assets	-200,696	-222,796	22,100	-9.92
Gains/losses on contractual amendments not resulting in derecognition	-3,288	-2,839	-449	15.82
Net financial income	**573,314**	**528,694**	**44,620**	**8.44**
Personnel expenses	-186,011	-182,869	-3,142	1.72
Other administrative expenses	-242,119	-254,440	12,321	-4.84
Other operating income/expense	57,059	54,583	2,476	4.54
Net accruals to provisions for risks and charges	-2,141	-8,965	6,824	-76.12
Adjustments to property, equipment and investment property and intangible assets	-50,477	-28,661	-21,816	76.12
Operating costs	**-423,689**	**-420,352**	**-3,337**	**0.79**
Operating profit (loss)	**149,625**	**108,342**	**41,283**	**38.10**
Net gains (losses) on equity investments and other investments	-278	424	-702	-165.57
Profit (loss) before tax	**149,347**	**108,766**	**40,581**	**37.31**
Income taxes	-48,652	-25,143	-23,509	93.50
Profit (loss)	**100,695**	**83,623**	**17,072**	**20.42**

Notes: The result of financial activities comprises the sum of items 80-90-100 and 110 in the income statement. Personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of € 8.507 million. Considering the method adopted for the transition to IFRS 16, the Bank did restate on a consistent basis the comparative figures in the year of first-time adoption; the figures for 2018 are therefore not fully comparable.

net interest income. Operating costs totalled 423,689 million, +0.79%. This contained increase, due to opposing trends within the various component parts, was largely due to lower provisions for credit risk in relation to commitments and guarantees given and a rise in other operating income.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has declined from 55.73% to 54.51%, while the ratio of operating costs to total assets has risen to 1.15% from 1.05%. Looking at costs in more detail, administrative expenses - normalised after excluding the deferral of proceeds from the post-employment benefits fund, which generated a matching entry to other operating income/expense - amounted to 428.130 million, -2.10%; of this amount, personnel costs rose from 182.869 to 186.011 million, +1.72%, while other administrative expenses declined from 254.440 to 242.119 million, -4.84%. This last comparison is not made on a consistent basis, due to the FTA of IFRS 16 Leasing. Once again, other significant expenses included use of the interbank networks, consultancy, IT costs and contributions to the National Resolution Fund and FITD. These last contributions totalled 29.969 million, compared with 26.944 million in the prior year.

«Net accruals to provisions for risks and charges» amounted to 2.141 million, compared with 8.965 million, down by 76.12%. The total comprises 4.369 million in net provisions for risks and charges, as offset by 2.228 million released following over accruals in prior years for the credit risk on commitments and guarantees given.

Adjustments to property, equipment and investment property and the amortisation of software totalled 50.477 million, compared with 28.661 million previously. This increase was largely due to the FTA of IFRS 16, as discussed in relation to other administrative costs, but with opposite effect.

Other income, stated after the above-mentioned reclassification and net of other operating expenses, amounted to 57.059 million, +4.54%.

Net losses on equity investments and other investments totalled 0.278 million, after writing down Pirovano Stelvio spa by 0.284 million and recognising a gain on the disposal of assets of 0.005 million. In the prior year, this line item reported a net gain of 0.424 million, comprising the collection of a price adjustment of 0.801 million under the contracts for the sale of the holdings in Arca Vita spa and Arca Assicurazioni spa signed in 2010, the writedown of Pirovano Stelvio spa by 0.398 million and a gain of 21 thousand on the sale of fungible assets.

Profit for the year

Profit before income taxes was therefore 149.347 million, +37.31%. After deducting income taxes of 48.652 million, up 93.50% on the previous year, the net profit for the year was 100.695 million, +20.42%.

The effective tax rate, being the ratio of income taxes to the result of current operations, was 32.58% compared with 23.12% in the previous year.

REFORM OF PEOPLE'S BANKS

At this point, it is appropriate to discuss the complex situation surrounding the transformation of Banca Popolare di Sondrio into a company with liability limited by shares (SpA) - as envisaged in Law 33 dated 24 March 2015 on the reform of the people's banks - summarising the latest events, even though they had no direct economic impact on the year just ended.

The reform of the people's banks was declared legitimate by the Constitutional Court in March 2018. Following this, on 18 October 2018, the Council of State reexamined that questions presented and, by order published on 26 October 2018, posed several significant questions to the European Court of Justice that could cast doubt on the principles underlying the reform. On 11 February 2020, the Advocate General of the European Court of Justice expressed a non-binding opinion stating that the 2015 Italian reform of people's banks does not violate EU law. The Court of Justice has not ruled yet.

On the legislative front, the latest date for the transformation in SpA of the people's banks meeting the legal criteria was deferred to 31 December 2020 by Legislative Decree 34 dated 30 April 2019, as enacted by Law 58 dated 28 June 2019.

2019 NON-FINANCIAL REPORT PURSUANT TO DECREE 254/16

The «Non-financial report» for 2019, prepared pursuant to Decree 254/2016, will be presented at the Shareholders' Meeting called for 12 June 2020 and made available on the institutional website: www.popso.it/assemblea2020.

CRITERIA FOR MUTUALISTIC ACTIVITIES

In accordance with the provisions of art. 2545 of the Italian Civil Code, the following are the criteria followed by management to achieve the Bank's mutualistic goals.

In this matter, points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; In addition the company aims to implement any appropriate initiative necessary to spread and encourage savings».

Again in 2019, our commitment was to satisfy the demand for banking products and services - especially loans - from our customers and, above all, from our members. This is our mission as a cooperative bank and we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. The above, in a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting its nature and desires.

In the interests of all, we seek to benefit from the business opportunities offered by our stakeholders, which in turn benefit from the positive outcomes that derive from working in a healthy and profitable environment. These cornerstone principles of identity, solidarity and support, also written into the Community Statute for Valtellina, continue to inform our conduct, both now and in the future.

Loans to customers amounted to 22,314 million, 3.86% more than in the previous year. This statistic and its progression confirm the growing scale of the financial support provided to households and businesses.

We have also supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy and implement rural development plans. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade the housing stock.

In terms of funding, customers have been given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

Our catalogue includes ethical financial instruments and supplementary pension products too, which are essential in order to assure an adequate level of retirement income.

Direct deposits totalled 29,684 million, +4.92%. This confirms the validity of our commercial proposals and, above all, the trust placed in the Bank as a result of its solidity and the concrete efforts made to safeguard savings.

Entities and institutions are among the principal recipients of our specialist services. Our offer - delivered through dedicated desks, traditional branches and, ever more frequently, electronic tools - is designed for both local entities and the numerous other institutions with which we have cooperated for some time. Without focusing on any particular segment, we provide services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organisations with an international outlook.

We have 165,982 members at the end of the year. The wide base confirms our ability to involve a large number of stakeholders in our work. The simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies members as the most important and stable core of customers.

Art. 2528, last para. of the Italian Civil Code requires the annual report to describe the reasoning adopted when deciding to admit new members. This information is presented in the «BPS stock» section of this report.

Institutional and market communication - carried out in full compliance with the specific regulations - takes account of the nature and sheer number of our members. In this regard, we note that communication is the key to informed participation by the members in the life of the bank. The traditional mid-year and year-end «Letters» are addressed to all members and friends, in order to update them on a periodic and timely basis about the performance of the bank. The directors' report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all. It is our duty to ensure that communications, increasingly required by the regulations, remain transparent and not excessively technical, in which case they would only benefit a few readers.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together.

Indirect participation is of course possible by the wider possibility to use proxy voting. This participation by members in the life of the bank also extends to the various meetings organised directly by the Bank and in collaboration with local entities and institutions.

The will to contribute towards the economic and social development of the communities that we serve also manifests itself in the financial support that we give to a vast range of initiatives. They are the result of a solidarity-based vision of the market, where profit is accompanied by other objectives, reflecting a long-term acceptance of responsibility towards the social context to which we belong for the enhancement of its identity. Initiatives during the year included:

– participation in the rescue of Cossi Costruzioni spa, a local Valtellinese firm specialised in the construction of tunnels and galleries, both in Italy and abroad. With our support, control over Cossi Costruzioni spa was acquired by Salini Impregilo, a group operating at international level in the construction sector. The rescue of Cossi and the return of its registered offices and operational headquarters to Sondrio means that, once again, Valtellina is known for excellence in the construction field. Furthermore, an entrepreneurial asset has been protected for the local economy and employment levels have been maintained. This action provides a concrete example of how we interpret actively, taking an innovative approach, the consolidated and confirmed role of a territorial bank;

– running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making our substantial wealth of books and documents available to the public, we have also established valuable contacts with the world of education and the schools, building synergies with other major libraries managed by several prestigious universities;

– support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;

– the cultural events we organize on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;

– the traditional celebration of World Savings Day;

– the support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity, with particular reference to the internationalisation of businesses;

– the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;

– donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

The Non-financial report, made available to the shareholders in compliance with the relevant legislation, provides further information about the matters discussed above.

SIGNIFICANT SUBSEQUENT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements.

As stated in the press releases dated 21 January and 3 March 2020, to which reference is made for more complete information, the Board of Directors of the Bank rejected the applications for membership presented by Amber Capital UK LLP and Amber Capital Italy Sgr spa on 25 October 2019, believing that the conditions established in the regulations and the Articles of Association were not satisfied and noting, in that context, that the 1% limit on share ownership established in art. 30 of the Consolidated Banking Act (TUB) had been exceeded. The Bank therefore decided, in accordance with the law, to dispute the violation of this limit in relation to the share ownership declared by Amber Capital UK LLP and Amber Capital Italy Sgr spa.

Pursuant to art. 11 of the Articles of Association, Amber Capital UK LLP and Amber Capital Italy Sgr spa presented appeals to the Board of Arbiters that were rejected in a decision dated 3 April 2020.

As stated in the press release dated 26 February 2020, the Bank decided - with agreement from the Supervisory Authorities and given that certain regulatory conditions precedent were not satisfied - not to acquire a controlling interest in Farbanca S.p.A. and concentrate, instead, on the derisking work in progress and the strengthening of its internal control structures.

On 24 March 2020, Fitch Ratings decided to take a series of rating actions in relation to numerous Italian banking groups. In the context of this action, the following ratings were placed on Negative Rating Watch: Long-term Issuer Default Rating, Viability Rating, Long-term Deposit Rating, Long-term Senior preferred Rating and Long-term Subordinated debt Rating. This decision reflects in large measure the major deterioration in the macroeconomic situation caused by the reaction to the COVID-19 pandemic, with consequent downgrade of the ratings of those banks that must tackle the economic crisis with an initial level of asset quality that is relatively low.

Applying a new methodology recently adopted by Fitch, the rating of the tier 2 «long-term subordinated debt» of the Bank was also lowered from BB to BB- at the same time. This type of debt was therefore removed from the *under criteria observation* (UCO) status, applicable from 4 March 2020, and transferred to Negative Rating Watch.

On 2 April 2020, DBRS Morningstar also updated its ratings of the Bank as part of a general ratings action covering Italian banking groups. The long-term creditworthiness of the Bank was confirmed to be *investment grade* «BBB (low)», as were all the other ratings assigned for the first time in November 2019. As part of the same action, the rating trends were revised from «Stable» to «Negative», to reflect the deterioration of the Italian macroeconomic situation caused by the reaction to the COVID-19 pandemic.

Lastly, on 8 April 2020, Scope Ratings confirmed our creditworthiness rating and revised the outlook from positive to stable.

It is important to remember that the financial statements at 31 December

2019 have been prepared with reference to measurements founded on the forecasts and economic and financial indicators current at that date. The «Coronavirus» epidemic broke out in the People's Republic of China very close to the 2019 reporting date and evolve rapidly subsequent to 31 December 2019. The International Health Regulations Emergency Committee of the World Health Organisation only declared the existence of an international emergency on 30 January 2020. After that date, Italy and numerous other countries implemented specific measures to contain the epidemic. Given the chronology of the events and the information made available after the reporting date, it is deemed reasonable to treat the pandemic as a subsequent event that does not require adjustments to the financial statements. Since the situation is still ongoing and evolving all the time, it is not currently possible to provide a quantitative estimate of its impact on the economic and financial position of the Bank. This impact will be considered in the assessments made during 2020, with special reference to the level of loan write-downs.

OUTLOOK FOR OPERATIONS

The signs of stabilisation identified at the end of 2019 vanished with the spread of the COVID-19 epidemic, now pandemic, which will have a serious adverse effect on the entire global economy.

The spread of COVID-19 and the resulting regulatory and administrative measures are highlighting certain impacts on the domestic and international economies that are difficult to quantify, given the uncertainties linked to the phenomenon.

Doubts about the recovery of trade and economic activity in general are certainly indicative of the adverse dynamics building in the global economy. As explained in the notes to the financial statements, the impact of this exceptional event on the various macroeconomic forecasts, especially that for GDP, is difficult to assess. The banking system is duty bound to consider the likely impact of these deteriorating macroeconomic scenarios on its assets and, in particular, when measuring its outstanding credit exposures and granting new loans. Nevertheless, the extremely sudden, never before seen, nature of the economic crisis induced by the reaction to COVID-19, also means that banks must avoid excessive reactions that would recognise in the financial statements many deteriorations that may only be temporary.

From mid-February 2020, as a consequence of market developments linked to the spread of the Coronavirus in western countries, global stockmarkets suffered falls that terminated the longest bull market in history. For example, on 12 March the Milan Stock Exchange crashed by 16.92%, representing its worst-ever performance. Fears, now plausible forecasts, of an economic slowdown were mirrored in the bonds market resulting, especially for fixed-income securities, in highly volatile yields that, on 18 March, exploded upwards when the yield on Italian 10-year BTPs exceeded 3 percent. Tensions regarding the credit spread on bonds, and Italian government bonds in particular, were eased partially by renewed ECB declarations of intent to do everything necessary to support the Eurozone economy, although their effects were somewhat undermined by the subsequent display of disunity among the member States.

All these trends had a significant impact on the security holdings of the Bank, in terms of market-to-market losses (on the portfolios measured at fair value) and theoretical losses (on the portfolios measured at amortised cost), which are monitored carefully every day.

Considering the effect of these market movements on the prudential capital ratios, which are also monitored daily, it is noted that the theoretical losses on the portfolios measured at amortised cost are not included in the calculation of supervisory capital, as it is assumed that they will be held to maturity. By contrast, the losses recognised on the portfolios measured at fair value do impact on the level of supervisory capital, either via the income statement or directly via the recognition of negative valuation reserves on HTCS securities.

At the date of Board approval of these draft financial statement and based on the data available at 1 April, the unrealised and theoretical losses charged to the 2020 income statement amounted to 54.2 million and the reduction in reserves totalled 57.8 million, both stated net of the profits and losses recognised on traded securities.

After tax effect, the impact on the income statement and reserves was respectively 36.3 million and 38.7 million, with a total contraction of equity by 75 million. The impact on the CET1 ratio was -44 basis points (-63 bp on the worst day) and, ceteris paribus, the consolidated ratio was reduced to 15.4% from 15.84% at 31 December 2019.

The bank book measured at amortised cost on the same date was exposed to theoretical losses of about 70.3 million that, as mentioned, do not affect the capital ratios.

With regard to the liquidity position observed during the first part of 2020, the LCR and NSFR determined using the normal regulatory analysis remain compliant in terms of both the propensity to accept risk governed by the Risk Appetite Framework and the minimum regulatory requirements.

From an «economic» standpoint, the picture that emerges from analysis of the principal indicators of operational risk affecting short-term liquidity (Days of Survival, Counterbalancing Capacity, Asset Encumbrance) and long-term liquidity (Funding Ratio), indicates that the risk exposure is contained within the limits established in the Risk Appetite Framework and, therefore, is consistent with the risk appetite of the Group. This remains true under the stressed scenarios.

The additional short- and long-term operational metrics, respectively known as «contingency indicators» and «structural indicators», essentially fall within the maximum risk objectives established by the Board of Directors. While the thresholds have been exceeded on a number of occasions, these events were appropriately identified and reported to the CRO and CEO in compliance with the established escalation process.

Given the above, the availability liquidity is considered adequate despite the current period of significant tension.

In the coming months, it will be necessary to provide maximum support to businesses and households in order to meet their temporary liquidity needs, as well as to facilitate the recovery that, hopefully, can be consolidated as soon as possible. At the same time, we need detailed, timely knowledge of those counterparties whose creditworthiness has been altered structurally by the crisis, enabling us to remain true to our mission and safeguard its future sustainability. The contraction in economic activity will have adverse consequences for asset quality, as mitigated by the corrective actions taken by governmental authorities.

Against this background and continuation of the accommodative ECB monetary policy throughout 2020, interest rates can be expected to remain at minimum levels. This will penalise the net interest income of banks, while the volatility in the financial markets of the spread between Italian BTPs and German Bunds can be expected to increase.

The Bank will continue the derisking work that began in 2019, including completion of the planned disposals.

Certainly, however, 2020 will be a difficult year: securities will not generate the positive results achieved in 2019 and the economy will contract as a consequence of the COVID-19 emergency. Accordingly, the full-year results are likely to deteriorate as well.

* * *

Shareholders,

The 2019 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which report a profit for the year of € 100,695,191, have been audited by EY s.p.a..

BALANCE SHEET

Total assets			€	36,780,103,664
Liabilities and equity	€	34,262,531,924		
Valuation reserves	€	12,131,964		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury shares	€	-25,321,549		
Reserves	€	990,903,675		
Total liabilities and equity (excluding profit for the year)			€	36,679,408,473
Net profit for the year			€	100,695,191

ALLOCATION OF PROFIT FOR THE YEAR

In line with legal requirements and the articles of association, we propose the following allocation of profit for the year:

– to the legal reserve 10%	€	10,069,519,10
– to the statutory reserve 30%	€	30,208,557,30
– to the legal reserve, a further	€	60,417,114,60
Total	€	**100,695,191,00**

EQUITY

If you concur with our proposals, the composition of equity will be as follows:

– Valuation reserves	€	12,131,964
– Share capital – 453,385,777 shares	€	1,360,157,331
– Share premium reserve	€	79,005,128
– Treasury shares	€	-25,321,549
– Reserves	€	1,091,598,866
Total	€	**2,517,571,740**

Shareholders,

This past year has not been easy for banks in general and we are no exception in this regard. Nevertheless, as is clear from the financial information discussed above, we have managed to achieve good results as a consequence of incisive business decisions, hard work in multiple areas and the united commitment of the entire organisation. Accordingly, it is important to express special thanks to all those who, in various ways, have assisted and worked closely with us, facilitating our activities.

Our gratitude first goes to our customers who, in addition to giving preference to our services, with evident results, have in many cases introduced family members, friends and acquaintances to us, encouraging them to use Popolare di Sondrio for their banking and financial needs.

We are grateful to our members for their confidence and support, as well as for their advice and constructive ideas.

Thanks are also extended to the members of the Board of Statutory Auditors, for their professionalism and the care they dedicate to the performance of their functions. Similar gratitude is expressed to the members of the Advisory Committee, who are always alert and available.

Special recognition also goes to the corporate bodies and personnel of Banca Popolare di Sondrio (SUISSE), Factorit and Banca della Nuova Terra, who have worked both successfully and with alacrity, closing their respective financial statements in profit for their benefit and the Group as a whole.

In addition, we extend our grateful thanks to the corporate bodies and staff at the Italian Banking Association (ABI), the National Association of Cooperative Banks, and our correspondent banks in Italy and abroad.

Warm thanks to the leadership at the European Central Bank, with a special thought for Mario Draghi, Italian economist and capable banker, who completed his mandate as President of the ECB on 31 October 2019, handing over to Christine Lagarde, formerly the French Managing Director of the International Monetary Fund, who we trust will be successful in this delicate and challenging role.

Special thanks also to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the managers of the main branches and of offices located in the provinces where we are present. On this last point, we want to mention Giuseppe Sopranzetti in Milan and Luigi Mariani in Rome, who are skilled bankers of great merit.

Many thanks too for the constant and appreciated collaboration of the directors, managers and staff of Consob and Borsa Italiana, which supervises the MTA, the screen-based market where our shares are traded.

Gratitude also to FINMA, the Swiss Federal Authority based in Berne that supervises the financial markets, which continues to monitor constructively the work of BPS (SUISSE) SA. Similar recognition goes to Banque de France, the French Supervisory Authority, which looks after the SUISSE branch in the Principality of Monaco.

Heartfelt thanks to our employees who, with their commitment to the Bank, as well as their daily availability and diligence, have contributed in their individual ways to our progress and the positive results achieved. We are proud of our people.

A fair number of employees retired during 2019: Mrs Monica Nolli and Messrs Luigi Andreola, Giuseppe Anselmini, Enrico Bertoletti, Maurizio Bettini, Oscar Bianchi, Bruno Bona, Bruno Bordogna, Riccardo Canclini, Luca Ciapponi, Piermario Cosmai, Mauro De Marzi, Valerio Della Valle, Stefano Deltedesco, Arturo Donati, Paolo Gallegioni, Giancarlo Granata, Guido Guarnieri, Alberto Guffanti, Valter Iemoli, Maurizio Leali, Fabrizio Lombella, Daniele Marconi, Costantino Marveggio, Gianmario Mattiussi, Annibale Morelli, Remo Muraro, Lorenzo Pasini, Danilo Fulvio Sala Veni, Nicola Sarcina, Antonio Triaca, Sergio Zoia. We trust that our new pensioners will harbour good memories of their time with us: the Bank where they worked for years, in which they believed and where they shared with colleagues the spirit of belonging to a large family: that of Popolare di Sondrio. Deep gratitude to one and all, with fervent good wishes for a long retirement with many satisfactions of every kind, both at home and together with friends and acquaintances, hoping that they will be able to cultivate all those interests that have remained in the drawer due to lack of time.

There may be those who have helped us with advice, suggestions or other matters who, quite unintentionally, we have forgotten to mention. It goes without saying that, together with our apologies, warm thanks are also extended to them.

Before submitting the 2019 financial statements to the Shareholders'

Meeting for approval, management notes that an ECB communication dated 27 March 2020 strongly recommends that the major banks under its supervision, including our institution, avoid making irrevocable commitments to pay dividends for 2019 and 2020, at least until 1 October 2020. This will strengthen their capital structure and make available the additional financial resources needed to support households and businesses faced with the emergency caused by the reaction to the Coronavirus.

Given the serious nature of the current situation and the outlook for the economy, management concurs with the prudent advice given by the Supervisory Authority.

Accordingly, it is proposed to allocate the entire net profit for the year to the reserves. Management will monitor the situation and consider whether or not the conditions exist for the payment of a dividend subsequent to 1 October 2020, or after any further communications from the ECB and, in any case, after ensuring that the uncertainties caused by the pandemic have been resolved. In that case, it would be necessary to call another Shareholders' Meeting.

Shareholders,

In presenting the 2019 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the Statutory and Independent Auditors – to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having heard the directors' report on operations during 2019 and the proposed allocation of the net profit for the year; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary companies,

approves:

– the directors' report on operations;
– the financial statements at 31 December 2019, comprising the balance sheet, income statement and related explanatory notes; the financial statements that report a profit for the year of € 100,695,191. The Shareholders' Meeting therefore specifically approves the allocation of the profit for the year of € 100,695,191 as proposed by the Board of Directors, in accordance with current legislation and the articles of association and, in particular, resolves:

a) to allocate:

– 10% to the legal reserve	€	10,069,519.10
– 30% to the statutory reserve	€	30,208,557.30

b) to allocate the residual profit:
– to the legal reserve, a further € 60,417,114.60

Sondrio, 9 April 2020

THE BOARD OF DIRECTORS

Management now submits the other items on the agenda for examination at the Shareholders' Meeting:

Point 2) on the agenda: resolutions on compensation matters:

letter a) Approval, pursuant to the supervisory regulations, of the document entitled «Remuneration Policies of the Banca Popolare di Sondrio Banking Group».

Shareholders,

In implementation of the Supervisory instructions for banks on compensation and incentive policies, pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013, the Shareholders' Meeting held on 27 April 2019 approved the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 9 April last, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee.

Compared with the prior year, a number of simple updates were made and the list of key personnel was revised. With regard to the substance, the text includes two new sections dedicated respectively to the Manager of the NPE Unit and the Personnel of the NPE Unit. In this context, the Bank is focused on important derisking work that involves, on the one hand, the disposal of impaired loans and, on the other, the restructuring and strengthening of a dedicated internal unit - the NPE Unit - tasked with accelerating the reduction of the stock of impaired loans, while also slowing the flow of loans from performing to non-performing exposures.

As recommended by the Supervisory Authorities, the Bank has decided to achieve these objectives, at least in part, by activating specific compensation mechanisms for the personnel involved in the NPE reduction programme. The objective is to encourage them to strive ever more effectively to obtain successfully the desired reductions.

As a result, part of the variable remuneration of the persons concerned has been linked to reductions in the stock of impaired loans, applying the criteria specified in the «Policies».

Without compromising the prudent approach that the Group has always taken, this updated policy makes it possible to manage in a more appropriate and targeted manner the various levels established for recognising the efforts made and the quality of the work performed by the personnel working in the delicate and strategic area of impaired loans.

In implementing the Bank of Italy's instructions and art. 29 of our current articles of association, we therefore submit for your approval the document containing the «Remuneration policies of the Banca Popolare di Sondrio Banking Group», which has been made available as required by law, in particular through publication on the Bank's website www.popso.it/assemblea2020 and attached to the Annual Financial Report.

The Compliance Function has been involved in validating the compensation policies and the system of remuneration, determining that the innovations introduced are not only consistent with the prudent approach taken by the Group, but also responsive to the changes requested by the Supervisory Authority.

Shareholders,

The supervisory instructions on compensation policies and practices require the information provided to the Shareholders' Meeting about the compensation and incentive systems and practices adopted to be consistent with that supplied to the public on the website.

It is therefore necessary to make available to the Shareholders' Meeting, as an attachment to the Annual Financial Report, the Document on Remuneration Policies pursuant to the supervisory regulations. That document, approved by the Board of Directors, contains the information and data required by the current Supervisory Regulations for Banks, Title IV, Chapter 2, Section VI.

The above document has also been published on the company website www.popso.it in the corporate information section.

The Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors.

In carrying out its work the Committee met 3 times in 2019 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored proper application of the rules relating to the remuneration of those in charge of internal control functions.

The main activities carried out are summarised below.

The Remuneration Committee explained its activities to the Board of Directors and the Shareholders' Meeting in the report approved at the meeting held on 22 March 2019.

The Remuneration Committee recommended adoption of the Remuneration Policies for the BPS Banking Group that, following approval by the Board of Directors on 22 March 2019, were authorised at the Shareholders' Meeting held on 27 April.

The Remuneration Committee recommended adoption by the Board of Directors of the Remuneration Report required by art. 123-ter of the Consolidated Finance Act, which was then approved at the Shareholders'

Meeting, to the extent of its responsibilities, as well as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations and, lastly, the Information Document on the 2019 Compensation Plan based on financial instruments.

The Remuneration Committee also assisted the Board of Directors in preparing the shareholders' resolution on the annual remuneration of the Board of Directors.

Additionally, the Remuneration Committee made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met.

Subsequent to approval of the Remuneration Policies by the Shareholders' Meeting, the Remuneration Committee also presented proposals for the remuneration of directors with specific responsibilities. These were based on the criteria indicated in the compensation policies, taking account therefore of «the importance of the role and the related level of responsibility; the professional and moral qualities required; the commitment involved, including time and energy; the economic and financial position of the Bank, including prospectively; the market remuneration for equivalent duties in companies of similar size and characteristics».

The Remuneration Committee proposed criteria and parameters to the Board of Directors for the recognition to key employees of variable remuneration linked to the economic-financial, qualitative and functional objectives specified in the Remuneration Policies.

The Remuneration Committee proposed thresholds to the Board of Directors, in terms of amount and percentage of fixed remuneration, below which key personnel would not be subject to the deferral criteria or stock-based payment.

Following due analysis, the Remuneration Committee proposed that the Board of Directors should adopt the Regulation governing the Remuneration Policies of the Banca Popolare di Sondrio Banking Group. Implementing the instructions received from the Supervisory Authorities, this Regulation governs the process of checking for any compensation hedging or insurance strategies or other measures that might alter or impede the alignment with risk inherent in the compensation mechanisms applied to the *Key personnel* of the Bank and the Banking group. It also identifies the types of operation or financial investment that, if carried out directly or indirectly by *Key personnel*, might influence the mechanisms for the alignment of risk and, more generally, pursuit of the objectives specified in the Remuneration Policies of the Group. Lastly, the Regulation defines the methods of communication between the *Key personnel* and the Bank on the topic indicated.

The Remuneration Committee has not found any anomalies in the application of the compensation policies during the exercise of its functions.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report:

resolves:

to approve the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»

takes note

of the Report to the public required by the supervisory regulations on Remuneration and incentive policies and practices, and of the information received about the activities of the Remuneration Committee».

letter b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, of the Report on remuneration policy and the compensation paid.

Shareholders,

In implementation of the revised art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the «Report on remuneration policy and the compensation paid», which comprises two sections.

The first section explains the policies adopted by the Bank for the remuneration of directors, the general manager, managers with strategic responsibilities and members of the control body, with reference to at least the next financial year; it also covers the procedures for adopting and implementing this policy. Among other matters, the Report also explains the proposed changes to the remuneration policies that were mentioned earlier. The second section illustrates with charts and tables, in the form required and with reference to the positions involved by the regulations, the compensation paid during the year concerned.

Pursuant to art. 123-ter, paragraph 1, of the CFA, the «Report on remuneration policy and the compensation paid» is distributed and made available to the public on the basis and with the timing envisaged in current legislation, in particular via publication on the Bank's website www.popso.it/assemblea2020. It is also attached to the Annual Financial Report.

Pursuant to art. 123-ter, paras. 3-bis and 3-ter of the CFA, we now submit for your binding approval the first section of the «Report on remuneration policy and the compensation paid».

In addition, pursuant to art. 123-ter, para. 6 of the CFA, we submit for your approval the second section of the «Report on remuneration policy and the compensation paid», in relation to which the Shareholders' Meeting may adopt a non-binding resolution in favour or against.

Shareholders,

Having regard for the above, management invites the Shareholders'

Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

resolves

to approve the first section of the Report on remuneration policy and the compensation paid.

Management also invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

resolves

to approve the second section of the Report on remuneration policy and the compensation paid.

letter c) Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2020.

Shareholders,

We submit for your approval the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2020.

The proposed resolution is explained in the Report on the 2020 Compensation Plan based on financial instruments attached to the Annual Financial Report.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the explanatory report and attached report:

resolves

to approve the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2020.

Point 3) on the agenda: Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;

Shareholders,

Art. 21 of the Articles of Association provides that: «The Board of Directors may acquire the Bank's shares in accordance with art. 2529 of the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the Shareholders' Meeting. The shares thus acquired may be re-sold or cancelled».

This topic is governed by the Italian Civil Code and, specifically, by art. 2529 and arts. 2357 et seq, by art. 132 of Legislative Decree 58/98 CFA and by Consob Regulation 11971 dated 14 May 1999 as amended («Issuer's Regulation»), as well as by arts. 77-78 of Regulation (EU) 575/2013 as amended. In particular, articles 73 and 144-bis and 144-bis.2 of Issuers' Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. The instructions contained in Regulation (EU) 596/2014 («MAR») are also applicable. In accordance with para. 33 of IAS 32 «Financial Instruments: Presentation», any treasury shares purchased must be deducted from equity.

Management recommends renewal of the authorisation granted at the Shareholders' Meeting held on 27 April 2019 to purchase and sell treasury shares, which expired today, together with expansion of the scope of the transactions and their effects.

Reasons for requesting authorisation to purchase and/or sell treasury shares

The purchase, trading and sale of treasury shares are intended, and are therefore appropriate and useful, to create in advance a package of shares available for special transactions designed to establish forms of partnership or collaboration with other industrial or financial operators, also active in the core business addressed by the Bank, as well as for small operations in the market designed to ensure liquidity and stable volumes for trading in the interests of the shareholders and the Bank, thus avoiding uncertainties and unjustified fluctuations in the share price. In addition, treasury shares may be purchased as a medium/long-term investment or, in any case, to take advantage of market opportunities whenever appropriate, both in the market and (solely with regard to disposals) over the counter, or even off market, on condition that reference is always made to the official listed price. With a view to optimising the capital structure, treasury shares may also be purchased with a view to capital reductions by cancellation of the treasury shares acquired, which may be arranged whenever deemed to be in the interests of the Bank.

Maximum number, category and value of the shares for which authorisation is requested

Today, share capital comprises 453,385,777 ordinary shares, all of which carry normal dividend rights.

In compliance with the limits established by current legislation, the authorisation relates to the purchase, on one or more occasions, of treasury shares totalling a maximum of euro 30,000,000 (thirty million) drawn from the available reserves that amount to euro 990,903,675, as reported in the Reserves line item of the financial statements, on condition in all cases that the number of treasury shares held shall not exceed 2% of the issued share capital.

The request for authorisation grants the Board the right to carry out repeated purchases and sales (or other forms of assignment) of treasury shares, on multiple occasions and on a revolving basis, including transactions that only involve a fraction of the maximum authorised quantity, so that - in all cases and at any time - the sum of the shares to be purchased and those already held by the Bank does not exceed the limits envisaged by law or by the Shareholders' authorisation.

Information for checking compliance with the limits referred to in art. 2357 of the Italian Civil Code

Purchases cannot be made for amounts that exceed the available reserves reported in the latest-approved financial statements of the Bank.

In this regard, it is noted that the draft financial statements at 31 December 2019, submitted for approval at the same Shareholders' Meeting called to approve this requested authorisation and assuming such approval is given, report available reserves totalling euro 990,903,675.

At the time of preparing this report, 30 April 2020, the Bank holds 3,650,000 treasury shares, representing 0.80% of the share capital, with a carrying amount in terms of reserves committed of euro 25,321,549. Subsidiaries hold 24,431 shares in the Bank, representing 0.005% of its share capital.

Given that the treasury shares held cannot, under the proposal made, exceed 2% of the shares comprising the share capital of the Bank, it is clear that the maximum limit allowed by art. 2357, para. 3, of the Italian Civil Code, being 20% of share capital, is not exceeded.

If the shares purchased are sold, it is understood that the proceeds may be used to make additional purchases until expiry of the Shareholders' authorisation granted, without prejudice to the limits and conditions established at the Shareholders' Meeting.

Duration of the authorisation

The authorisation to purchase and dispose of treasury shares is requested for the period commencing on the date of this Shareholders' Meeting called to approve the 2019 financial statements until the date of the Shareholders' Meeting called to approve the 2020 financial statements.

The Board of Directors may make the authorised purchases on one or more occasions at any time during the period indicated above.

Minimum and maximum consideration

Purchases must be made at a price that is not more than 20% greater than the closing price posted at the end of the market day immediately prior to each transaction and with a further limit that, depending on the trades carried out, the number of shares owned must not exceed 2% of the total shares representing share capital. Sales must be made at a price that is not more than 20% lower than the closing price posted at the end of the market day immediately prior to each transaction.

We also recommend granting authorisation, from the date of this Shareholders' Meeting called to approve the 2019 financial statements until the date of the Shareholders' Meeting called to approve the 2020 financial statements, for the disposal pursuant to art. 2357-ter of the Italian Civil Code, at any time, in whole or in part, on one or more occasions, of the treasury shares purchased in accordance with this proposed resolution or on the basis of previous authorisations, for the purposes described above and understood for all intents and purposes to be repeated here, as well as granting authorisation for the further use of all the treasury shares purchased in the context of and for the above purposes, in all cases on the terms and conditions determined by the Board of Directors.

With regard to any disposals of treasury shares arranged off market, the Board will establish criteria for determining the related price and/or the basis, timing and conditions for the use of the treasury shares held, having regard for the actual disposal procedures followed, the changes in the listed share price in the period prior to the transaction and the best interests of the Bank.

Any cancellations of the treasury shares purchased pursuant to this proposed resolution or previous authorisation must comply with the law and the articles of association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

Method for purchasing and selling shares

The treasury shares will be purchased, pursuant to art. 132 of Legislative Decree 58/1998 and arts. 144-bis and 144-bis.2 of the Issuer's Regulation, on one or more occasions, in one or more of the following ways: *i*) public offer to purchase or exchange; *ii*) in regulated markets following the operating procedures established in compliance with regulations governing the organisation and management of those markets, which do not allow proposed purchase trades to be matched directly with specific proposed sale trades (art. 144-bis, para. 1.b, Issuer's Regulation); *iii*) by purchasing and selling derivative instruments traded in regulated markets that envisage physical delivery of the underlying shares, on condition that the regulations governing the organisation and management of the market establish procedures for the purchase and sale of the above instruments that do not allow proposed purchase trades to be matched directly with specific proposed sale trades and that guarantee ready participation by investors in the trading of the above derivative instruments used for the purchase of treasury shares (art. 144-bis, para. 1.c, Issuer's Regulation); *iv*) in the context of systematic internalisation activities that are non-discriminatory and envisage the automated and non-discretionary execution of trades on the basis of predetermined parameters (art. 144- bis, para. 1.d-bis, Issuer's Regulation); *v*) in ways established by market practices allowed by Consob pursuant to art. 13 MAR (art. 144-bis, para. 1.d-ter, Issuer's Regulation); *vi*) on the conditions specified in art. 5 MAR (art. 144-bis, para. 2, Issuer's Regulation).

With regard to the volume of shares, the purchases and sales - if the latter are executed in the market - must never exceed 25% of the average daily volume of shares traded on Borsa Italiana S.p.A. The average volume is calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each purchase.

The treasury shares will be sold, on one or more occasions, even before having purchased the maximum quantity, on the basis and with the timing deemed most appropriate in the interests of the Bank, using any means considered suitable in relation to the objectives pursued, including off-market sales, sales of blocks of shares and/or assignments consistent with the objectives identified above, without prejudice in all cases to compliance with the duration of the Shareholders' authorisation, the requirements established for the minimum and maximum prices and all applicable regulations.

<u>Capital reductions by cancellation of the treasury shares acquired or held</u>

Any cancellations of the treasury shares must comply with the law and the articles of association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

* * *

In implementation of above articles of association and in compliance with the relevant regulations, the Board of Directors recommends that the Shareholders' Meeting adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today,

- taking note of the recommendation of the Board of Directors;
- taking note of the current legal requirements and the provisions of the Articles of Association;
- acknowledging that, today, the Bank holds 3,650,000 treasury shares, representing 0.80% of share capital, with a carrying amount in terms of

reserves committed of euro 25,321,549, while subsidiaries hold 24,431 shares representing 0.005% of the share capital of the Bank

resolves

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2020 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Chairman's Committee, which will therefore publish the information required pursuant to art. 144-bis, para. 3, Issuer's Regulation on the programme start date;

<u>Purchase of treasury shares:</u>

- purchases may be made up to a maximum amount of euro 30,000,000 (thirty million) without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
- purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2020 financial statements;
- the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- purchases must be made in one of the ways specified in para. 1, letters a), b), c), d-bis), d-ter), or in para. 2 of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

<u>Trading and sale of treasury shares</u>

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2020 financial statements;

- the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- the selling price of the shares - if sold in the market - must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volume

- the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each operation.

Cancellation of treasury shares

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

Shareholders,

The Bank has updated the Remuneration Policies for 2020 that are submitted for approval at the Shareholders' Meeting, together with the Compensation Plan pursuant to art. 114-bis of Legislative Decree 58/98 CFA, whose characteristics are described in the Information Document on the 2020 Compensation Plan based on financial instruments.

Key personnel – identified in the above Remuneration Policies in implementation of the specific regulatory requirements – are the beneficiaries of a Compensation Plan based on financial instruments as part of their variable remuneration. If this remuneration exceeds the significance threshold determined by the Board of Directors, considering its size and incidence with respect to the related fixed remuneration, the amount is subject to the deferral rules and to payment in the form of financial instruments, which is considered a suitable way to ensure alignment with the long-term objectives of the Bank. In particular:

– an up-front amount representing 60% of the total variable remuneration is paid in the following year, by the end of June;
– five equal annual tranches, equalling 40% of the total variable remuneration, are deferred over a five-year period commencing from the year after that in which the up-front amount is paid;
– 50% of the up-front part and 55% of the deferred part is paid via the grant of shares in Banca Popolare di Sondrio scpa. These shares are subject to a retention period of 1 year.

Considering the theoretical requirement estimated for the 2020 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 490,000, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of Euro 490,000, in order to service the 2020 Compensation Plan based on financial instruments. The number of shares used to service the above Plan will be determined with reference to the closing price struck on the date on which the Board of Directors resolves to grant the variable remuneration.

In this regard, we note that at 31 December 2019 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of Euro 25.322 million.

Given the above and in compliance with the relevant laws and provisions of the articles of association, the Shareholders' Meeting is invited to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having heard the proposal made by the Board of Directors:

resolves

to authorise the Board of Directors to use, up to a maximum total amount of Euro 490,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2020 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan will be determined with reference to the closing price struck on the date on which the Board of Directors resolves to grant the variable remuneration.

The Board of Directors, and the Managing Director, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

Point 4) on the agenda: fixing the remuneration of the directors.

Shareholders,

Pursuant to art. 41 of the Articles of Association, the Shareholders' Meeting is responsible for determining the annual remuneration of the Board of Directors. The Meeting also determines the amount of the attendance fees and, as a lump sum, the reimbursement of expenses for directors' attendance at meetings of the corporate bodies. Pursuant to the Remuneration policies of the Banca Popolare di Sondrio Banking Group, this remuneration is always set as a fixed amount without impact on the financial statements, given that the amount involved is small. Forms of incentive pay based on financial instruments or linked to the performance of the Bank are not foreseen for the directors.

At its meeting of 30 April, the Board of Directors approved the proposal made by the Remuneration Committee for the annual remuneration of the directors. It is now submitted to the Shareholders' Meeting.

Given the economic and financial position of the Bank and having regard for the commitment required of the directors in order to fulfil their important and delicate functions, we recommend that the Shareholders' Meeting approve a remuneration proposal that is unchanged with respect to last year.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report on the determination of the annual compensation of the directors: resolves:

resolves

– directors' emoluments: Euro 40,000 for each director, giving a total of Euro 600,000;
– individual attendance fees:
  € 300 for attending meetings of the Board of Directors;
  € 150 for attending meetings of the Chairman's Committee and other Board committees;
– personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Chairman's Committee, the other Board committees, being:
– for persons resident in the province of Sondrio: € 100;
– for residents outside the province of Sondrio: € 200.

Point 5) on the agenda: appointment of five Directors for the three-year period 2020-2022.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Paolo Biglioli, Cecilia Corradini, Mario Alberto Pedranzini, Annalisa Rainoldi and Lino Enrico Stoppani.

The provision of art. 32, para. 3, of the Articles of Association applies, pursuant to which:

«The composition of the Board of Directors must ensure gender balance in accordance with current regulations».

The requirements of the directors and the causes of ineligibility are governed by Article 33 of the Articles of Association, as follows:

""""""

Art. 33

Requisites – Reasons for ineligibility

Members of the Board of Directors must satisfy the personal requirements set by the law, as well as those set by the oversight regulations for the banks.

At least a quarter of the Directors needs to also meet the Independence Requirements specified by article 147 ter, fourth paragraph of the Legislative Decree no. 58 of 24 February 1998.

With specific regulations approved by the Board of Directors, limits are set with reference to offices held by the directors in other companies.

""""""

The presentation of the lists of candidates is governed by article 35 of the Articles of Association, as follows:

""""""

Art. 35

Presentation of lists of candidates

The members of the Board of Directors are elected from lists containing as many candidates as the number of directors; the candidates are listed with a sequence number.

The lists must be filed at the registered offices by the deadlines established by current regulations.

The composition of the lists must guarantee the minimum number of independent directors and the gender balance of the elected Board of Directors, in accordance with the principles established by law and the articles of association, having regard, when assigning sequence numbers to candidates, for the election mechanism governed by art. 36.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

Lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

One or more shareholders satisfying the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of that interest.

The signature of each presenting member has to be authenticated in accordance with the law or by employees of the bank nominated for that purpose by the Board of Directors.

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists.

Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

””””””

Note that current legislation, to which art. 35 of the Articles of Association refers, states that the lists of candidates for the office of director have to be deposited at head office by the 25th day prior to the date of the Meeting.

Lists for the election of the Board of Directors can also be filed electronically by certified e-mail sent to segreteria@postacertificata.popso.it

Pursuant to the current «Supervisory Regulations for Banks», Circular no. 285 of 17 December 2013, the Board of Directors carried out a preliminary analysis to determine the optimal quali-quantitative composition of the Board and the profile of suitable candidate directors.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website www.popso.it/assemblea2020.

This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The election of directors is governed by art. 36 of the Articles of Association, as follows:

““““““

Art. 36
Election of the directors

Each member may vote for only one list of candidates.

Directors are elected as follows:

a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
b) from the list that obtained the second highest number of votes, the first listed candidate is selected.

If two or more lists obtain the same number of votes, the prevailing list will be the one with the oldest candidate in first place.

The lists which do not obtain votes equal in number to at least half the number necessary for the presentation of the lists, shall not be considered. If only one list exceeds that limit and similarly if only one list is presented, then all the directors shall be chosen from that list.

If the shareholders have not submitted a single valid, the Board of Directors can present at the Meeting a pre-filled ballot paper containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted.

Once the votes have been counted, the candidates who received the highest number are elected. If no valid list is presented and the Board of Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Directors resulting from the votes does not respect the gender balance principle and the minimum number of independent directors, the director who does not comply with that principle and the requirement placed at the highest position in the winning list is replaced by the next candidate from the same list who complies with them. If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the director elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

For partial renewals of the Board in accordance with the provisions of article 34, paragraph 2, where it is not necessary to appoint a director taken from a list that obtained the second highest number of votes, for the first time or due to expiry of a mandate or other cause of termination, all of the candidates on the list that obtained the highest number of votes shall be elected.

““““““

The Board of Directors therefore invites you to appoint five directors through the voting list to replace the ones whose mandate has expired.

Point 6) on the agenda: Appointment for the remainder of the three-year period 2019-2021 of an advisor and reconstruction of the number of members of the Advisory Committee.

Shareholders,

Pursuant to art. 54 of the Articles of Association, the Shareholders' Meeting is called on to appoint an advisor for the remainder of the three-year period 2019-2021.

This follows the death of Giuseppe Guarino – Advisor – whose three-year mandate would have ended on the date of the Shareholders' Meeting called to approve the 2021 financial statements.

Management recommends the appointment of Antonio La Torre, born in Messina on 1 March 1928, as the replacement Advisor. Prof. La Torre is already known to the shareholders of the Bank, having already served as an alternate Advisor.

As a consequence, it is also necessary to appoint a replacement alternate Advisor.

Management recommends the appointment of Cesare Mirabelli, born in Gimigliano (CZ) on 29 December 1942, who is an eminent jurist and who, among other roles, has served as the President of the Constitutional Court.

Appointment is by relative majority vote.

Sondrio, 30 April 2020

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Shareholders,

This Report of the Board of Statutory Auditors of Banca Popolare di Sondrio (hereinafter, the «Bank») describes the work performed during 2019 pursuant to the institutional duties envisaged by the Italian Civil Code, Legislative Decrees 385/1993 (CBA) and 58/1998 (CFA), the Articles of Association and the instructions issued by the domestic and European authorities responsible for supervision and control. In preparing this Report, the Board applied the principles of conduct for boards of statutory auditors of listed companies recommended by the Italian Accounting Profession and, in addition, complied with the instructions contained in Consob Communication 1025564/2001 and subsequent amendments and/or additions.

The financial statements at 31 December 2019 of the Bank and of the Banca Popolare di Sondrio Group, approved by the Board of Directors on 9 April 2020, were presented to this Board, together with the report on operations and the other required documentation, in good time for the preparation of this report. As required by law, we report herein on the supervisory activities carried out and on any omissions or censurable facts identified, as well as on the observations and recommendations expressed, to the extent of our responsibilities, with regard to the financial statements and their approval.

Supervisory activities of the Board of Statutory Auditors and information about the meetings attended

In accordance with article 149 of the CFA, we have monitored (I) compliance with the principles of proper administration; (II) the adequacy of the organisational structure, the system of internal control and the administrative and accounting system; (III) the practical application of the corporate governance rules envisaged pursuant to current legislation; (IV) the adequacy of the instructions given to Group companies.

With regard to the practical performance of our supervisory activities during 2019, as envisaged in art. 52 of the Articles of Association, we attended (except in cases of justified absence) the Ordinary and Extraordinary Shareholders' Meeting, the meetings of the Board of Directors (13) and those of the Chairman's Committee (41); in addition, the Chairman of the Board and/or at least one of the Statutory Auditors also attended 12 of the 17 meetings of the Control and Risks Committee. This enabled us, as envisaged in art. 150 of the CFA, to obtain information about the principal economic, financial and equity transactions carried out during the year by the Bank and its subsidiaries. We also implemented a plan of inspections (55), based on scheduled and periodic meetings with the second- and third-level control functions and with other offices and functions, covering specific operational matters or events. With regard to the territorial presence of the Bank, we considered it appropriate to extend the scope of our supervisory activities, with support from the Internal Audit Department - Central and Seconded Inspectors Office, by making visits (12) to larger branches and/or those with certain complexities in order to check their operations directly. This work enabled us to obtain concrete evidence about the proper implementation of processes and procedures.

Lastly, this Board has interacted actively with the Supervisory Body required pursuant to Decree 231/2001, whose 7 meetings were attended by the Chairman and/or a statutory auditor to favour the constant exchange of information on specific matters of common interest. In this regard, we note that appropriate updates were made in 2019 to both the Organisational Model, further refining the analysis of risks, and the corporate Code of Ethics.

Operations and facts of greater economic and financial significance involving the Bank or its subsidiaries during the year

The activities of greater economic and financial significance that took place during 2019 are identified and described in detail by the directors in their report on operations. We can confirm that, to the best of our knowledge, the underlying decisions were taken in compliance with the law, the articles of association and the instructions issued by the Italian supervisory authorities (Bank of Italy and Consob) and the European authorities (ECB and ESMA).

To the extent of our responsibilities and based on the results obtained from the performance of our supervisory activities, as well as on the information provided to the Board of Statutory Auditors by the directors pursuant to art. 150 CFA, we believe it appropriate to summarise below the events that we consider were the most significant in 2019.

– The Bank has applied IFRS 16 from 1 January 2019, electing to recognise the effects of first-time adoption in accordance with the «modified retrospective» approach, without therefore recognising those effects on a retrospective basis pursuant to IAS 8. Give the first-time adoption of IFRS 16, the income statement data presented for the year ended 31 December 2018 is not fully comparable, on a consistent basis, with that reported for the year ended 31 December 2019.
– On 13 February 2019 Banca Popolare di Sondrio S.C.p.A. and BPER Banca S.p.A. were awarded in total 19,999,000 ordinary shares in Arca Holding S.p.A. previously held by Banca Popolare di Vicenza S.p.A. in Liquidazione Coatta Amministrativa and Veneto Banca S.p.A. in Liquidazione Coatta Amministrativa (both in mandatory liquidation). As a result of this transaction, the Bank - which was already a shareholder of Arca Holding S.p.A. - now owns 36.825% of the share capital of that company.
– During May 2019, the Supervisory Authority authorised the Bank to use its own internal rating system (AIRB) to measure the capital required to cover the credit risk on the corporate and retail portfolios. This has

influenced the supervisory reports filed from 30 June 2019 onwards. This authorisation has allowed the Bank to make a significant saving in terms of its risk-weighted assets (RWA), thus improving the Common Equity Tier 1 ratio (*CET1 ratio*) that, on initial application of the authorisation as of 30 June 2019, rose to 15.5% from 12.03% at the end of 2018.

– Banca della Nuova Terra S.p.A. absorbed its subsidiary, Prestinuova S.p.A., on 24 June 2019.
– The Board of Statutory Auditors has dedicated particular attention to the management of non-performing loans (NPL), not least in view of the importance attached to them by the ECB. On 8 August 2019, the Board of Directors authorised the disposal by the end of the first half of 2020 of gross non-performing loans totalling Euro 1 billion, via a securitisation involving the formation of a securitisation SPV whose senior bonds will benefit from a government guarantee (GACS); in addition, on 20 December 2019, the Board of Directors approved a further sale of gross non-performing loans totalling Euro 400 million and impaired loans amounting to Euro 200 million, mostly unlikely-to-pay exposures, with a view to substantially reducing the stock of NPLs.
– On 17 October 2019, the Bank notified the market that the conditions precedent (i.e. approval by the Supervisory Authority of the necessary amendments to the Articles of Association) for the acquisition of Cassa di Risparmio di Cento S.p.A. had not been satisfied. In this regard, the ECB highlighted the need to prioritise the ongoing derisking initiatives, designed to reduce the stock of non-performing exposures (NPE), and prudently assign the capital buffer of the Bank to shelter them, as well as to strengthen the governance and risk control structures.
– With effect from 1 December 2019, the Bank assigned to Popso Covered Bond S.r.l., a vehicle company, a portfolio of performing mortgage loans totalling Euro 352 million as part of the programme for the issue of additional covered bonds.
– At 31 December 2019, there are two T-LTRO operations outstanding with the European Central Bank for a total of Euro 2,700 million. The first (T-LTRO II) was arranged for Euro 3,500 million in March 2017 and expires on 24 March 2021; the outstanding balance is now Euro 1,100 million, following the partial repayment made on 18 December 2019. The second (T-LTRO-III) was arranged on 18 December 2019 for Euro 1,600 million and expires on 21 December 2022, with the possibility of early repayments once 24 months have elapsed from the subscription date. The refinancing operation for Euro 1,100 million arranged on 23 June 2016 and expiring on 24 June 2020 was repaid in full during December. These LTRO II operations, originally at a zero interest rate, accrue negative interest in favour of the Bank, as it has granted total loans to customers exceeding the threshold assigned by the ECB.
– Part of the equity investment held in Nexi S.p.A. was sold during the year. The disposal gain recognised, Euro 44.9 million, was credited to reserves pursuant to IFRS 9.

– Contributions to the National Resolution Fund and the Interbank Deposit Protection Fund totalled Euro 29.969 million during 2019.

Significant events subsequent to the end of 2019

Among the events that have occurred since the end of 2019, the Board of Statutory Auditors has identified several worthy of note given their considerable importance.

– In a decision adopted by the Board of Directors on 21 January 2020, prior to the deadline envisaged in the Articles of Association, the Bank rejected the applications for membership presented by Amber Capital UK LLP and Amber Capital Italy SGR S.p.A. on 25 October 2019, determining that the conditions established in the regulations and the Articles of Association were not satisfied and noting, in that context, that the 1% limit on the ownership of shares established in art. 30 TBA had been exceeded; the reasons for this rejection were notified to the market - as requested by Consob – in a press release dated 3 March 2020. Pursuant to art. 11 of the Articles of Association, the applicants requested a review by the Advisory Committee, which rejected it. The Board of Directors took note of this decision made by the Advisory Committee on 9 April 2020.
– As stated in a press release on 26 February 2020, the Bank has decided not to proceed with the acquisition of a controlling interest in Farbanca S.p.A., considering the need to give priority to the ongoing derisking initiatives, as requested by the European Central Bank.
– On 27 February 2020, the Bank received a specific request from Consob pursuant to art. 114, para. 5 CFA, calling for additional information in the 2019 Annual Financial Report about the derisking initiatives in progress at the date on which publication of the financial statements was authorised, together with a description of the governance and risk control structures due to be strengthened, the action identified and the related timing of implementation. This Board notes that the Bank, in compliance with the requests from the Supervisory Authorities, has included a specific section containing the relevant information in the Directors' report on operations.

Reform of People's Banks

On 11 February 2020, the Advocate General of the European Court of Justice, Gerard Hogan, expressed his non-binding opinion on the questions posed by the Council of State on the application of the regulations governing the transformation of People's Banks into limited liability companies, stating that the 2015 Italian regulations reforming the People's Banks do not violate EU law; the conclusions of the Advocate General will be considered by the European Court of Justice, which has not yet handed down its ruling. Previously, on 18 October 2018, the Council of State had decided to ask the European Court of Justice for a legitimacy opinion on five important questions regarding Law 33 dated 24 March 2015 concerning the reform of the People's

Banks. While awaiting the decision from the EU Court of Justice, the Council of State confirmed that the precautionary measures already authorised with regard to transformation of the People's Banks into limited liability companies will remain in place. In view of the above, the Italian legislator passed Law 136 dated 17 December 2018 extending to 31 December 2019 the deadline for transforming into an SpA. Law 58/2019 further amended the law on the reform of People's Banks (Law 33 dated 24 March 2015) by deferring the transformation deadline again, this time until 31 December 2020. In the circumstances, the Bank has decided to wait for the relevant rulings from the European Court of Justice and the Council of State, in order to obtain the clear understanding of the regulatory framework needed to make the appropriate decisions.

Covid-19

The «Coronavirus» epidemic, identified first in China close to the reporting date, spread suddenly in 2020; in fact, on 30 January the World Health Organisation declared the epidemic to be an international public health emergency, raising the threat level to «very high» on 28 February 2020. Subsequently, specific measures were taken in Italy and elsewhere to contain the epidemic.

Given this chronology, the substance of the event is considered to have taken place subsequent to year end, without requiring any adjustment of the reported results.

Considering that events are constantly unfolding and, not least, their sudden and unexpected nature, the impact on the economic and financial position of the Bank is not readily quantifiable; the effects will be recognised properly during 2020. Nevertheless, examination of the 2019 Annual Financial Report prepared by the directors, inclusive of a full discussion of the developments to which reference is made, highlights the significant impact on the value of the securities held, with both recognised and theoretical unrealised losses (the former included in the calculation of supervisory capital, but not the latter given their «theoretical» status) that are monitored daily by the competent functions within the Bank. At the date of approval of the draft financial statements by the Board of Directors and based on the data available at 1 April 2020, the unrealised and theoretical losses charged to the income statement amounted to Euro 54.2 million and the reduction in security valuation reserves totalled Euro 57.8 million, both stated net of the profits and losses recognised on traded securities; considering the tax effect, which reduces the impact on the income statement to Euro 36.3 million and on the reserves to Euro 38.7 million, the reduction in equity was Euro 75 million and the effect on the CET1 ratio was -44 basis points; holding other conditions unchanged, the consolidated ratio at 31 December 2019 of 15.84% has therefore been reduced to 15.4%.

This Board believes that the Bank has taken appropriate steps to ensure the continuity of operations, having regard for the relevant instructions issued by the Supervisory Authorities.

Compliance with the principles of proper administration

During the year, the Board of Statutory Auditors obtained adequate information about the principal economic and financial transactions carried out by the Bank. To the best of our knowledge, we can reasonably exclude that the Bank has carried out any transactions, directly or via subsidiaries, that are manifestly imprudent or risky, in potential conflict of interest without proper management, or in contrast with the principles of correct administration or resolutions adopted by the Bank that would compromise the integrity of its assets.

We did not identify any atypical or unusual transactions arranged by the Bank with third parties, other members of the Banking group or other related parties, pursuant to art. 2391-bis of the Italian Civil Code.

With regard to the transactions carried out with related/associated parties, we can confirm that the Board of Directors has complied with the regulations governing related-party transactions issued by Consob resolution 17221/2010 and subsequent amendments, the Bank of Italy measure entitled «Risk assets and conflicts of interest with related parties» and IAS 24 on the disclosure of information about related parties, in accordance with internal policies and in full awareness of the risks and effects of the decisions made. Such transactions were settled on market terms or, in the absence of suitable comparative parameters, at cost and, in all cases, based on an assessment of the objective mutual benefit and propriety. We hereby certify that the transactions referred to in art. 136 of the Consolidated Banking Act were unanimously approved by the Board of Directors and with the favourable vote of all members of the Board of Statutory Auditors and, in any case, in compliance with the regulatory provisions.

By attending the various meetings of the Board of Directors and the Chairman's Committee, the Board of Statutory Auditors has monitored the compliance of decision-making processes with the law and the articles of association and determined that the related resolutions were adopted on the basis of adequate information and, in all cases, in the interests of the Bank.

Adequacy of the organisational structure

We have performed our supervisory activities and carried out our functions, obtaining necessary information about the adequacy of the organisational structure of the Bank via direct investigations and the collection of data and information from the managers of the principal business functions.

As part of our constant monitoring work, we also noted the recommendations and requests for strengthening work contained in the instructions received from the ECB and reiterated subsequently in the annual SREP letter, with a view to improving the effective functioning of the Board of Directors and the organisation structure, as well as the control functions and the strategic and operational plan for addressing NPEs.

Upon request from the European Supervisory Authority and with specific reference to the organisational structure and the Compliance, Internal Audit and Anti-Money Laundering functions, the Bank has engaged external consultants to prepare independent analyses and reports highlighting the areas to be strengthened. The above activities have already been completed. These assessments identified improvements to the organisational and governance structure, the sizing of the resources available to the above control functions, and the information and decision-making mechanisms.

In this context, this Board notes that, at the meeting held on 8 November 2019, the Board of Directors approved major changes to the organisational structure of top management within the Bank. This involved reorganising the pre-existing organisational units by establishing the so-called «*C-Suite*», with the addition of a Chief Lending Officer (CLO) and a Chief Financial Officer (CFO), and changes to the duties of the Chief Risk Officer (CRO).

We took note of the approval process and the start of work to implement the organisational decisions made; this Board is now monitoring carefully the extensive efforts made by the Bank to adopt additional measures designed to consolidate the new organisational structure, via a series of evolutionary steps needed to tackle - at a time of rapid change - not only the market dynamics, but also the intensive development of banking regulations and the requirements of the European Supervisor.

The organisational changes also involved the new NPE Unit, where the Bank has taken concrete steps to strengthen the structure in quali-quantitative terms. Numerous persons were added to the NPE Unit during 2019 and a series of operational initiatives were arranged to contain the new flow of impaired positions and increase the level of recoveries; the new operational model envisages greater recourse to outsourcers, the preparation of specific reports and advanced models for the predictive management of the exposures most at risk, and the efficient management and monitoring of forbearances and write-offs.

With regard to the Compliance and Internal Audit Functions, with which this Board maintained a constant flow of information during the year, we note that a need to strengthen them was identified following steady expansion of the scope of their activities. The Bank has therefore strengthened the related workforce, arranging for transfers, recruitment and training, all for the purpose of facilitating the healthy and prudent management of risk. In addition, necessary improvements were identified with regard to the assessment, identification and management of risks, with more systematic checks and a more systematic use of tools for monitoring and tracking the results of the checks performed. A good part of the above activities have already been completed.

In order to implement the strategies defined by the Bank, working parties have also been established in order to increase the efficiency of the planned initiatives. Recourse has also been made to support from external consultants. All implementation work is due for completion by the end of the first quarter of 2021, thus making necessary improvements to the overall organisational model of the Bank, consistent with the best market practices and the enhanced regulatory and supervisory requirements.

Adequacy of the system of internal control

Pursuant to Bank of Italy Circular 285, Title IV, Chapter 3, this Board has monitored constantly the system of internal controls, holding frequent discussions on a regular basis with the managers of the various control functions in order to (i) check the need to strengthen them from a quali-quantitative standpoint, having regard for the increased duties assigned to them following expansion of the Group and the intensification of control activities in view of current market conditions and the requirements of the European Supervisor and, in this sense, where necessary, draw the need for appropriate action to the attention of top management, and (ii) promote the proper functioning, performance of duties and coordination of the responsible structures and functions.

We noted the requests contained in the routine SREP letter regarding the internal audit, compliance and anti-money laundering functions and concurred with them, as authoritative instructions intended to increase the overall efficiency of the system of internal control. Based on the deeds and facts considered during the supervisory activities carried out and having regard for the scale and operating characteristics of the Bank and Group, we identified during the second half of 2019 that the above functions had commenced appropriate work to enhance their methodologies and the organisation of their structures. These efforts were subsequently intensified, resulting in further improvements in the management of risks. Considering the activities already put in place and the further action planned, this Board believes that the functions mentioned are able to ensure, at an appropriate level, the adequacy, reliability and functioning of the system of internal controls adopted by the Group.

Based on the work performed, this Board can also confirm that, in a context of reciprocal independence and respect for the different roles, the various business control functions have collaborated with each other and, in general, with the other functions within the Bank, thus ensuring that the different methodologies adopted remain consistent with the strategies and operations of the business.

During the first quarter of 2020, independent external consultants carried out an assessment of the second-level Compliance and Anti-money laundering control functions and the third-level internal audit function; this work, requested by the European Supervisor, was designed to identify any weaknesses and areas for improvement in the above functions, considering both their personnel and their processes, giving particular attention to the areas of greatest risk; the Board of Statutory has examined the results of these activities and the related observations, so that the remediation actions can be monitored to ensure their completion by the established deadlines.

Tracking procedures were also implemented during the year, first by the Internal Audit Department and then by the Compliance Function, in order to support the identification, monitoring, management and reporting of the results of their control activities. The objective of these procedures is to ensure that timely and prioritised actions are taken, in line with best practices and the supervisory requirements. Further work to complete these procedures, which the above control functions discuss periodically with this Board, will ensure more efficient and effective analysis of the recommendations identified and monitoring of the progress made on the remediation actions identified, having regard for the deadlines and priorities assigned.

The intercompany outsourcing model, adopted to ensure greater supervision and centralisation within the Parent Company of second- and third-level control functions, was consolidated further in 2019, with its extension to Banca della Nuova Terra S.p.A.; a new Group Audit Office was also created within the Internal Audit Department, reporting directly to the function manager.

The Board of Statutory Auditors has monitored the adequacy of the first-level controls by examining the checks made by the second- and third-level control functions, as well as by participating in certain network checks performed by the Central and Seconded Inspectors Office of the Bank.

Considering the work of the individual second-level control functions, we discussed various matters of significance with the respective managers that are summarised below:

– During 2019, the Compliance Function further implemented the «broad compliance» operational model, with direct work on core matters within the Bank and collaboration with specialists and compliance contacts regarding more specific matters. This model makes it possible to use and benefit from certain professional skills within the Bank, spreading and consolidating a culture of compliance with the established rules and control. We believe this approach to be effective. The Compliance function further expanded its ex ante activities during 2019, with a total of 257 contributions to the activities of the Bank in the form of regulatory alerts, acknowledgements and compliance opinions, meeting minutes and analyses prior to the launch of new products, services and innovative projects.

  This Board held periodic constructive discussions with the manager of this function, examining and assessing the matters arising from regulatory framework and the instructions received from the Italian and European Supervisory Authorities; the function dedicated particular attention, among other matters, to the topic of business transparency with various activities completed in accordance with the 2019 plan. Notably, the inspection carried out by the Bank of Italy in 2019 on the subject of banking transparency was completed, without penalties, with the expression of a «partial compliance» opinion. Particular attention was paid to the regulatory changes relating to payment services, with a special focus on proper implementation of the instructions contained in the PSD2 directive. We also identified consolidation of the procedures adopted to implement correctly the European General Data Protection Regulation (GDPR) introduced in 2018, with the performance of specific checks on video surveillance and external data processors.

  Overall, we determined the substantial adequacy of the controls over the risks addressed by this function, not least via periodic meetings to discuss the content of annual and semi-annual reports, as well as the results of specific control activities; as noted by the European Supervisor, this function does however need additional personnel considering the changes in its operational mandate that the assessment mentioned above may well identify.

– In a regulatory environment that is evolving constantly (in fact, on 26 October 2019 the Italian Official Gazette published Legislative Decree 125 dated 4 October 2019 transposing the European Vth Directive on anti-money laundering), the Anti-money laundering Function further implemented the risk-based approach encouraged at EU level by promoting, during 2019, a review of its second-level verification activities including, among other activities, the formalisation of certain periodic checks. This work resulted in more effective collaboration and, therefore, an even more incisive ability to identify suspicious transactions. Action was also taken to upgrade the IT tools available, with implementations to ensure the more rational and effective use of the «AML Dashboard» application, as recommended by the Supervisory Authority.
  The Bank of Italy carried out a number of anti-money laundering inspections of the Bank during 2019; these checks involved the central function and 16 branches. The resulting opinion confirmed the substantial adequacy of the structure and the related processes; subsequently and even during the inspections, the function made considerable efforts to define and implement action to ensure alignment with the instructions given by the Authority.
  On the topic of adequate verification, during 2019 the anti-money laundering completed the alignment actions identified during the above inspections and, as a result, considerably reduced the number of anomalies; significant work was also carried out in 2019 in the identification of final beneficiaries, in compliance with the requirements of the IVth Directive on anti-money laundering.
  Lastly, the function continued to provide training during 2019 in order to increase awareness at the various levels of the Bank involved; in particular, a number of training sessions - some attended by this Board - were held for the benefit of branch managers and AML contact persons, covering the principal regulatory changes and strengthened adequate verification. These sessions were held for and directly at 89 branches selected by the function.
  Considering that the AML risk profile of the Bank remains low, this Board can confirm - partly by reference to the checks on the Anti-money laundering function carried out together with the Internal Audit Department - the substantial adequacy in 2019 of the controls over the risks addressed by this function.

– The Compliance function continued its checking activities during 2019, addressing in particular the internal models for the measurement, monitoring and management of Pillar 1 and Pillar 2 risks and the other methodologies for the measurement of risk used for operational and accounting purposes; the function also carried out more targeted, constant monitoring of the recommendations made over time to the various structures of the Bank on matters relevant to them. Specific projects were

launched in 2019 to address the request from the Supervisory Authorities to receive periodic information flows about validation work performed on the validated PD, LGD, and EAD models. These projects included special action to align the risk models and processes adopted by the Bank with the new definition of default (DoD) regulations.
Based on periodic discussions with the manager of this function, including on the issue of annual and semi-annual reports, this Board has formed a substantially positive opinion on the verification work performed.
The European Supervisor has not made any particular observations about the structure and activities of this function and, accordingly, this Board believes overall that it is adequate for the performance of its duties.

– The risk control function has increased further the efficiency and effectiveness of the checks performed to prevent, measure and mitigate the various types of risk. This included further development work in 2019 on the models used for regulatory purposes, ensuring their functional performance and concrete application, as well as the provision of support for the continuous interactions with the Supervisory Authorities, both during their inspections and with regard to the resolution of outstanding matters. Additionally, the strategic RAF, ICAAP and ILAAP processes have been further strengthened and the integrated information provided about risks continues to be improved.
We have dedicated particular attention to the work of this function, not least by holding periodic meetings with the manager and lead personnel in the various offices: in addition to supervising and monitoring the various types of risk, specific supervisory efforts have been dedicated to the processing of defining the Risk Appetite Framework (RAF), which is revised periodically to become more sophisticated and detailed, harmonising better with other key business processes. This Board has also interacted with this function in relation to its work on the adequacy of capital (ICAAP, *Internal Capital Adequacy Assessment Process*) and liquidity (ILAAP, *Internal Liquidity Adequacy Assessment Process*). We can confirm that, as far as our sphere of competence is concerned, we have not found any significant matters to be reported.
Turning to the organisational structure of senior management, a new «Area of Governance» model has been introduced, revising the previous «Deputy General Manager» structures for the supervision of several departments and offices responsible for performing interrelated activities on a consistent basis; this general overhaul of the organisation was approved by the Board of Directors of the Bank on 8 November 2019. With regard to the monitoring and management of risk, a new «Area of Governance» was established on 1 January 2020 with the appointment of a Chief Risk Officer (CRO) in charge of the Risk Control Function. The responsibilities assigned to this function have subsequently been revised as part of ongoing work in the early months of the new year: one of the offices that previously reported to the CRO area has been reassigned to the Chief Lending Officer (CLO), responsible for another new «Area of Governance», consistent with the mandate assigned to that structure;

two offices within the function have been combined in order to release synergies and, at the same time, two new specialist offices have been established; a number of persons with experience in dealing with problem loans have been transferred to the new NPE Unit. The above work is responsive to the comments and observations made to the Bank by the European Supervisor. This Board believes that the reorganisation described helps to improve the structure and functioning of top management, reflecting the specific recommendations made to the Bank by the ECB, which called for changes in the responsibilities of the CRO to ensure full independence from operational functions, as well as for specific work to strengthen management at the *C-Suite* level.

With regard to the third-level checks carried out by the Internal Audit Department, whose responsibilities include checking the adequacy and effectiveness of the system of internal controls and related processes, we have ensured that constant checks and analyses are carried out by this function on the core processes of the Bank, applying a risk-based approach. Internal Audit has dedicated constant attention to the various lending processes, having regard for the development of internal models and projects to comply with regulatory instructions, including the new definition of default. With regard to lending, Internal Audit has identified certain areas for improvement including, briefly, the management of forborne exposures and unlikely-to-pay loans (UTP) in general, as well as the internal regulations for the management of non-performing loans and the classification of loans; we have monitored the corrective actions taken by the structures within the Bank as a consequence of the matters raised in this context by the Internal Audit Department. Constant attention has also been given to governance, including with regard to such primary processes as ICAAP, ILAAP and RAF, as well as certain specific areas like outsourcing and information technology. As a result, the department identified among other matters that the framework for the management of IT risk should be integrated more incisively with the more general systems for the control of operational and reputational risks, as indeed recommended by the ECB as well. Effective checks were also carried out on compliance with certain regulatory instructions identifying, with regard to banking transparency, the need at an organisational level for greater unity and coordination among all the structures involved in controlling the entire process.

Working with the function manager in a spirit of mutual cooperation, we agreed as usual at the planning stage the operational audit work to be performed and, periodically during the year, we assessed the outcome of the checks performed and the remedial actions taken by the Bank in the areas for improvement identified.

Within the Internal Audit Department, this Board has worked with the Central and Seconded Inspectors Office to check a number of branches, in order to both verify their compliance with operational procedures and identify possible weaknesses in the network structures.

As identified by the European Supervisor, the size of this function needs to be increased by implementing a recruitment plan that will strengthen its structure, having regard for the function self-assessment carried out at the end of 2018. In addition, the independent assessment mentioned earlier, requested by the European Supervisor and entrusted to an independent external consultant, was carried out in order to identify remediation actions to be implemented by the function. Work on several of these is well advanced.

Considering the specific operational situations analysed and the corrective actions planned and currently in progress, this Board believes that application of the system of internal controls during the year has maintained sufficient control over the risks faced by the Bank. The system must be further consolidated however, moving towards an ever more advanced and efficient model in order to respond properly to the changing requirements of the Supervisory Authorities and the market in which the Bank operates, so that the adequate, prudent and healthy management of risks is assured.

Adequacy of the administrative-accounting system. Manager responsible for preparing the Company's accounting documents

The Board of Statutory Auditors has monitored the adequacy and concrete functioning of the administrative and accounting system, as well as its ability to record the results of operations and present them properly in the financial statements, by obtaining information from the managers of the relevant business functions, examining significant corporate documentation and analysing the results of the work performed by the Legal Auditor and the Manager responsible for preparing the Company's accounting documents (hereinafter, the «Responsible Manager»).

In the context of his attestation given pursuant to art. 154-bis CFA, in April and May 2019 the Responsible Manager carried out a specific assessment designed to review and update the framework of controls in order to ensure compliance with the provisions of Law 262/05. This check resulted in the issue of an opinion confirming the substantial adequacy and effective application of the administrative and accounting procedures that govern preparation of the financial statements, although certain areas for improvement were identified and appropriate corrective actions defined.

The Legal Auditor also identified certain areas for improvement in the system of internal control governing the process of making financial disclosures that, however, were not deemed to represent significant weaknesses.

Given the duties assigned to this Board in the process of making financial disclosures, including our role as the Audit Committee, we have coordinated closely with the manager of the Administration & Financial Accounting Department, holding periodic meetings to exchange information about the administrative and accounting system, as well as its reliability in terms of presenting properly the results of operations in compliance with international accounting standards.

During 2019 this Board monitored the progress and effective implementation of the project to adopt IFRS 16; this was also discussed with the Legal Auditor during the periodic meetings held to exchange information, obtaining confirmation that the standard has been applied properly.

We discussed with the Responsible Manager the corrective actions planned after the receipt of observations from the ECB following its deep dive on credit risk during 2019.

Although the duties of this Board do not include the legal audit of the accounts pursuant to Legislative Decree 39/2010, which is performed by the Independent Auditors, we believe with reference to the information obtained from both the Legal Auditor and the Responsible Manager that the administrative-accounting system taken as a whole is adequate and reliable and that the results of operations are recorded correctly.

Lastly, with regard to the accounting information contained in the financial statements at 31 December 2019, we note that the Managing Director and the Responsible Manager have issued an unqualified attestation pursuant to art. 154- bis CFA, having regard for the requirements of art. 81-ter of Consob Regulation 11971 dated 14 May 1999, as amended.

Implementation of the corporate governance rules envisaged in the codes of conduct prepared by the companies that manage regulated markets

We confirm that, in compliance with art. 123-bis CFA, the Bank has prepared the «Report on corporate governance and the ownership structure» which has been published on the website of the Bank, following approval of its text at the meeting of the Board of Directors held on 9 April 2020. As in prior years, we note that the Bank has not adopted voluntarily the «Code of Corporate Governance for listed companies» published by Borsa Italiana S.p.A., which will be replaced from 31 December 2020 by a new «Code of Corporate Governance» approved by the Corporate Governance Committee for all companies listed on the MTA exchange managed by Borsa Italiana. Nevertheless, the model approved by the Board of Directors expresses principles and provides a framework for conduct and procedures that assure substantial consistency with the objectives of the Code.

With reference to the work performed in 2019 and considering arts. 123-bis and 148 CFA, art. 26 CBA and the instructions contained in Bank of Italy Circular 285/2013 and subsequent amendments, this Board has carried out a self-assessment that confirmed the overall adequacy of our work on the supervisory duties and other responsibilities assigned to us, as well as the complementary nature of the skills contributed by our members. In view of the regulatory developments (CRD IV), this Board considered it appropriate to continue the training and refresher sessions provided and to organise specific meetings with the second- and third-level control functions in order to monitor the controls implemented on a continuous basis. This Board also checked that each Statutory Auditor continues to satisfy the relevant independence, integrity and professionalism requirements, as well as to comply with the instructions governing the number of appointments held and the absence of impediments or reasons for termination.

As stated in the «Report on corporate governance and the ownership structure», we note that the Board of Directors of the Bank, in implementation of Bank of Italy Circular 285/2013, as amended, has also carried out a self-assessment of the Board and its Committees in accordance with the relevant regulation, in order to analyse their size, composition and functioning, check the effectiveness and timeliness of the actions taken and identify areas for possible improvement. This analysis was carried out by the General Affairs Office of the Bank, using a specific questionnaire approved by the Appointments Committee, and was completed anonymously by the members of the Board of Directors. We note that the results of this self-assessment were discussed and approved at the Board meeting held on 27 February 2020.

This Board also notes that, in compliance with current regulations, the Board of Directors has identified its optimal quali-quantitative composition and the profiles of candidate directors. The related document was approved by the Board of Directors on 7 February 2020 and made known to the members of the Bank, so their nominations for the renewal of the Board of Directors could take account of the professionalism needed, the reasons for incompatibility and termination, and the limits on the accumulation of appointments envisaged under current regulations and laws, including the ban on interlocking relationships.

Remuneration policies

This Board notes that, at the meeting held on 30 April 2020, the Board of Directors received the favourable opinion of the Remuneration Committee expressed on 7 April 2020 and approved the document entitled «Remuneration polices of the Banca Popolare di Sondrio Banking Group» for submission to the Shareholders' Meeting, together with the «Report on remuneration policies and the compensation paid» required by art. 123-ter CFA, as amended, and the «Report on the 2019 compensation plan based on financial instruments» prepared in compliance with the Issuer's Regulation adopted by Consob Decision 11971 dated 14 May 1999, in implementation of art. 114-*bis* CFA. Compared with the document approved at the Shareholders' Meeting held in 2019, the new remuneration policies contain updates for the manager and personnel of the NPE Unit, clarification about the principles and procedures adopted for implementing and monitoring the remuneration and incentive policies and practices of the Group, and the names of key personnel and related balancing of their fixed and variable remuneration, including the restrictions placed on the latter.

This Board notes the satisfactory outcome of the analysis of remuneration policies carried out by the Compliance function in relation to the requirements of Bank of Italy Circular 285, First Part, Title IV, Chapter 2, Sections I, II, III and IV, as well as compliance with the Bank of Italy instructions on the transparency of operations and banking and financial services, Para. 2-quater, Section XI, on the subject of remuneration policies and practices.

To the extent of our responsibilities, considering the checking activities carried out that included attendance at the meetings of the Remuneration Committee, this Board has not identified any matters that should be reported; we also note the analysis of the remuneration policies of the Banca Popolare di Sondrio Banking Group carried out by the Internal Audit Department, which did not identify any significant anomalies in applying the regulatory instructions that might indicate inconsistencies in the document with respect to the regulations concerned.

The current remuneration policies adopted by the Banking group also appear to be aligned with those recommended by the EBA in its Declaration dated 31 March 2020, concerning the need to adopt remuneration policies consistent with the current economic situation.

Instructions given to Group companies

This Board has monitored the adequacy of the instructions given by the Bank to its subsidiaries, in compliance with art. 114 CFA, considering them suitable for the purpose of complying with the disclosure requirements imposed by law.

An adequate flow of information was guaranteed during 2019 due to the existence of close functional and operational ties, as well as the presence of contact persons within the subsidiaries.

This Board has also maintained contacts with the corresponding boards active at Group companies. In this regard, we note that the control bodies and the contact persons for the control functions at Group companies regularly meet and exchange information on the principal matters relevant to each company; in particular, information is exchanged in order to assess the system of internal controls adopted by subsidiaries.

The relations maintained by the Bank with the other Group companies were also discussed at meetings of the Board of Directors of the Bank; these exchanges of information were facilitated by participation in the administrative bodies of subsidiaries by the General Manager, top managers and/or directors of the Bank.

With regard to the management, coordination and control activities carried out by the Parent Company in relation to its subsidiaries, we note that:

– because Swiss regulations do not require Banca Popolare di Sondrio (SUISSE) SA (100%) to have a Board of Statutory Auditors, control activities consist in constant interaction between the Internal Audit Department of the Bank and the equivalent department within the subsidiary. This company operates in accordance with the instructions issued by FINMA, which is the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Bank's Internal Audit Department, this Board has not identified any critical matters or information to report about general compliance by the subsidiary with the regulations. Based on the auditors' report issued by EY SA and considering the information obtained from discussions with the directors and managers of BPS Suisse, we can confirm that no matters worthy of specific mention have come to light;

– with regard to Factorit S.p.A. (60.5%), the control activities of this Board mainly consisted of interaction with the Internal Audit Department of the Bank, which performs the internal audit function of the subsidiary under an outsourcing agreement, and examination of the periodic reports on the work performed presented to the Board of Directors of the Bank. Coordination with Factorit's Statutory Auditors is guaranteed by the fact that the Chairman of that Board is also a Statutory Auditor of the Bank. Additionally, this Board held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;
– with regard to Popso Covered Bond S.r.l. (60%), a company formed to issue covered bonds, we have taken into consideration the 2019 report issued by BDO Italia S.p.A., which currently acts as asset monitor, and the work performed by the Internal Audit Department, which issues an annual report on the covered bond issue programme, as required by Bank of Italy Circular 285;
– with regard to Banca della Nuova Terra (100%), the control activities of this Board during 2019 mainly consisted of interaction with the Internal Audit Department of the Bank, which performs the internal audit function of the subsidiary under an outsourcing agreement signed during the year, and examination of the periodic reports on the work performed presented to the Board of Directors of the Bank. This Board also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;
– in carrying out our control activities in relation to Sinergia Seconda s.r.l. (100%), which essentially provides the Bank with supporting services, and Pirovano Stelvio S.p.A. (100%), we benefited from the fact that the Chairman of the Board of Statutory Auditors of the Parent Company is also a member of their Boards of Statutory Auditors. This Board also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters.

With regard to the above, we have no observations to make about the adequacy of the instructions given to Group companies for the purpose of obtaining the information flows needed to comply on a timely basis with the reporting obligations imposed by law.

We also note that no matters worthy of mention emerged from the discussions held with the control bodies active in the subsidiaries, or from the evidence presented by the control functions of the Parent Company including, in particular, the Internal Audit and Compliance functions.

Relations with the Supervisory Authorities and the SREP process

As the Parent Company of a significant banking group, since 2014 the Bank has been subject to the Single Supervisory Mechanism (SSM), under the direct supervision of the European Central Bank. In order to carry out its control activities, the ECB is assisted by the JST (Joint Supervisory Team

- operational unit of the SSM responsible for the constant prudential supervision of the Group), with which the Bank maintains constant contact via the various functions and central offices to discuss, define, assess and update, together with the team leaders, the activities already carried out and those that are planned. The Bank is also subject to supervision, to the extent of their responsibilities, by the Bank of Italy, Consob and the bodies responsible for the resolution of banking crises.

In response to the various requests made by the Supervisory Authorities, this Board has found that the work performed by the Bank demonstrates an attentive, aware and collaborative approach by all the functions of the Bank involved. This Board has also monitored constantly implementation of the methodological and organisational initiatives taken by the Bank in response to the matters raised, decisions, observations and suggestions made by the ECB and the Bank of Italy during their inspections and/or investigations covering key areas.

In carrying out our institutional activities, this Board has also exchanged valuable information with the JST and the various teams appointed to carry out inspections.

In performing this work, we drew on the support provided by the Internal Audit Department, which has dedicated great care to ensuring the completeness of the activities carried out and compliance with the agreed deadlines. In particular, the following inspection work was performed.

– On-site inspection by the Bank of Italy on transparency and anti-money laundering matters, completed in June 2019; as a consequence, the Bank has commenced appropriate remediation actions.
– Inspection by Consob, from 19 March 2019, covering the following areas: procedures established with regard to product governance; procedures for assessing the adequacy of transactions arranged by customers. This inspection was completed on 2 October 2019; the results have not yet been made known.

In addition to the above, the Bank has also prepared an appropriate plan of action for the Supervisor in response to the investigations described below.

– On-site inspection by the European Central Bank between October 2018 and February 2019, focused on the analysis of processes, policies and accounting practices, as well as on the examination of the individual credit positions (Credit File Review) of customers in the Corporate and SME Corporate segments; as a consequence, the Bank has commenced appropriate remediation actions.
– On-Site Inspection (OSI) by the ECB between May and July 2019 to evaluate the processes followed for identifying, measuring, managing and monitoring the exposures to market risk and interest-rate risk in the banking book (IRRBB); as a consequence, the Bank has commenced appropriate remediation actions.
– In-depth analysis of the ILAAP and liquidity deep dive by the JST in October and November 2019.

Furthermore, the offices and managers of the senior structures within the Bank have continued their constant dialogue with the Supervisory Authorities on various matters of particular importance, some of which were part of routine annual activities, while others addressed specific requests following the implementation of instructions contained in updates or new measures issued by the authorities. In particular, this work covered the weekly update of the liquidity position of the Group, discussed between the Supervisory Authority and the Financial Risks Office, as supplemented this year by Bank participation in the Liquidity Stress Test (LiST).

Among the most important matters discussed, this Board notes: the strategic and operational plan for NPLs currently being implemented, the business plan, internal governance, capital adequacy, AIRB validation, credit underwriting, transparency exercise, profitability forecast exercise, IT risk questionnaire, resolution of banking crises (topic with regard to which the supervision team is represented by the Internal Resolution Team - IRT, an authority active in the context of the Single Resolution Mechanism).

In December 2019, the Bank received the annual SREP decision letter from the ECB, containing the outcome of the Supervisory Review and Evaluation Process. Considering the analyses and evaluation work carried out, the Supervisory Authorities determined the following consolidated prudential requirements with effect from 1 January 2020:

a) minimum Common Equity Tier 1 ratio of 10.00%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (3.00%);

b) minimum Total Capital ratio of 13.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8.00%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3.00%).

At 31 December 2019, the Bank had the following separate (phased-in) capital ratios: CET 1 Capital ratio 17.68%; Tier 1 Capital ratio 17.68%, Total Capital ratio 21.19%, and the following consolidated (phased in) capital ratios: CET 1 Capital ratio 15.75%; Tier 1 Capital ratio 15.80%, Total Capital ratio 18.64%.

With reference to the instructions given following the SREP process, the Supervisory Authority requested improvement and optimisation of the internal governance mechanisms, expansion of the NPE Unit for the more effective recovery and management of impaired loans, and the strengthening of control functions to facilitate the healthy and prudent management of risks. In this context, as already mentioned, the Bank acted promptly to comply with the instructions from the European Supervisory Authority.

This Board notes that, at this time, the Bank has already completed a number of initiatives; we are monitoring the ongoing projects and have drawn the attention of the functions concerned to the need to give maximum priority to delivery of the planned solutions, with a view to complying precisely with the deadlines established by the European Supervisor.

On 27 February 2020, the Bank received a specific request from Consob pursuant to art. 114, para. 5 CFA, calling for the inclusion of information in the 2019 Annual Financial Report about the derisking activities in progress at the date on which publication of the financial statements was authorised, together with a description of the governance and risk control structures due to be strengthened, the action identified and the related timing of implementation.

This Board notes that the Bank, in compliance with the requests from the Supervisory Authorities, has included a specific section containing the required information in the Directors' report on operations.

Independence of the Legal Auditor and other appointments granted to the Auditing Firm

Pursuant to art. 17, para. 9.a), of Legislative Decree 39/2010 and art. 149-duodecies of Consob Regulation 11971, as well as arts. 4 and 5 of EU Directive 537/2014, this Board identifies below the total consideration recognised to EY S.p.A. and its network for services provided to the BPS Group during 2019, as specified in the notes to the financial statements, to which reference is made for further details.

Euro	Parent Company		Subsidiaries		Total	
Type of services	EY S.p.A.	Network EY	EY S.p.A.	Network EY	EY S.p.A.	Network EY
Audit services	286,650		133,500	438,980	420,150	438,980
Certification services	162,300				162,300	
Other services		282,880		39,600		322,480
Total	**448,950**	**282,880**	**133,500**	**478,580**	**582,450**	**761,460**

The certification services are additional to the legal audit work assigned by law or by a Supervisory Authority; these services include activities that represent an extension of the legal audit work (limited examination of the consolidated non-financial report, limited examination of the separate non-financial report, comfort letters, TLTRO-related certifications, etc.). The above services are usually assigned to the legal auditor as, by their nature, they are not deemed to compromise its independence.

For services other than audit work («other services»), the Bank has recognised to EY S.p.A. and the EY network a total of Euro 282,880 for due diligence work on the accounts of Cassa di Risparmio di Cento S.p.A. and the assessment and gap analysis of certain business processes.

With regard to the audit work performed, the remuneration recognised to EY S.p.A. and its network in 2019, in compliance with current regulations, totalled Euro 286,650 from the Bank and Euro 572,480 from the other companies (Italian and foreign) in the Group.

With regard to the activities and related fees for the work identified above as «other services» that were requested from EY S.p.A. and its network, we confirm that they were authorised by this Board pursuant to arts. 4 and 5 of EU Regulation no. 537/2014.

The auditing firm has confirmed to this Board that it did not issue any opinions pursuant to the law during the year, given that the conditions that would have required them did not arise.

We also certify that we obtained the report on the independence of EY S.p.A. on 2 May 2020 and confirm that we do not consider there to be any critical aspects regarding independence or causes of incompatibility pursuant to articles 10, 10-bis and 17 of Legislative Decree 39/2010 and articles 4 and 5 of Regulation (EU) 537/2014.

Lastly, we note pursuant to art. 150 CFA that we exchanged valuable information during the periodic meetings organised with the auditing firm, during which we analysed the principal topics regarding the preparation of the financial statements. Discussions also included the policies for measuring loans and guarantees and, in particular, the derisking criteria adopted by the Bank, as well as the processes for recognising the impairment of equity investments. In turn, this Board provided the auditing firm with information about our supervisory activities and, to the extent known, any significant matters relating to the Bank. This Board confirms that no matters have emerged that are deemed censurable and/or that require mention pursuant to art. 155, para. 2, CFA.

Other information required by CONSOB Communication 1025564 of 6 April 2001 and subsequent updates

As required by the above Communication, we confirm that this Board did not receive any complaints pursuant to art. 2408 of the Italian Civil Code between the date of our 2019 report to the Shareholders' Meeting held to approve the financial statements at 31 December 2018 and the date of this report. The contents of a complaint submitted by a shareholder, promptly examined by us and answered immediately by the Bank, did not relate to circumstances covered by the above article.

In addition, during 2019, this Board did not receive any statements from shareholders or customers of the Bank.

Information about complaints submitted to the Bank

From discussion of the annual report of the Compliance function prior to its submission to the Board of Directors, and from information contained in the report on the internal system for reporting whistle-blowing violations, this Board identified that only one report was submitted whose contents were not strictly related to infringements addressed by the specific regulations. Nevertheless, we note that the Bank forwarded the report in a confidential manner to the competent structures, as envisaged in the relevant corporate policy.

With reference to the complaints received by the Bank, we note that the Compliance Function has analysed the annual report prepared by the complaints office in compliance with the requirements of the Bank of Italy in the latest version of Section XI, para. 3, of the instructions on the transparency of operations and banking and financial services - Propriety of relations between intermediaries and customers. In this regard, we confirm that the number of these complaints, albeit slightly more than those received in 2018 (168 vs 146), remains very limited considering the growth in the operations of the Bank. Furthermore, there were no concentrations in specific areas or at specific branches or evidence of significant anomalies and/or wilful improper conduct by personnel. In addition, we note that there were 3 complaints about investment services in 2019 (10 in 2018) and they were all rejected. For one, the customer has appealed to the ACF. The quantity and type of complaints enable this Board to confirm that the Bank complies with the regulations and the transparency requirements when providing these services.

Non-financial report

The Directors of Banca Popolare di Sondrio are responsible for ensuring that the 2019 Non-financial report (NFR) is prepared and published in compliance with Legislative Decree 254/2016. In the context of its functions, this Board has supervised compliance with the instructions, checking that the Bank has satisfied the obligations envisaged in arts. 2, 3, 4 and 5 of the above Decree and that, in particular, it has elected not to prepare a separate non-financial report pursuant to art. 6, para. 1, of the Decree, but rather to prepare the consolidated report envisaged in art. 4. As last year, the NFR of the BPS Group is separate from the Report on operations. In compliance with art. 1, para. 1073, of Law 145 dated 30 December 2018, the Bank describes both the principal risks associated with its activities and how they are managed.

Examination of the NFR reveals that the BPS Group has carried out a materiality analysis to identify the potentially most significant topics and related priorities via a process, organised by top management, that included the involvement of key stakeholders (suppliers and employees in 2019). The following significant and material topics were identified and discussed: solidity and economic performance, integrity and fight against corruption, data protection, support for saving and informed decisions, enhancement of human resources and dialogue with employees, evolution of the service model and relations with the distribution network, human rights and diversity, health and safety, responsible credit, ties with the territory and the community. Significant but not material topics include: direct environmental impacts, relations with the supply chain, dialogue with social partners, financial education and awareness about environmental matters. Only the first topic on this second list was included in the report, as envisaged in the above decree.

This Board confirms that the Report describes the efforts made and results achieved by the Group in relation to ESG (environmental, social and governance) matters, responding to the expectations of its various stakeholders. The Report also provides, for each topic discussed, a comparison with the activities carried out and commitments made in prior years, applying the methodologies and principles envisaged in the reporting standards adopted.

Lastly, we note that EY S.p.A. subjected the Report to a limited examination in compliance with art. 3, para. 10, of the above decree, issuing the required attestations to confirm that the information provided complies with the requirements of the legislation with regard to the principles, methodologies and procedures established for its preparation, pursuant to the Consob Regulation adopted by Decision 20267 dated 18 January 2018 and other requirements.

Financial statements and Report on operations

We have examined the financial statements at 31 December 2019, which are presented today for your examination and approval. In this regard, we confirm that they were approved by the Board of Directors of Banca Popolare di Sondrio on 9 April 2020 and, on that date, provided to us together with the Directors' report on operations and the other obligatory documentation.

You are reminded that the financial statements have been audited by EY S.p.A., the appointed legal auditor of the accounts and the separate and consolidated financial statements.

We confirm that, on 2 May 2020, the legal auditor issued its «auditors' report» pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, the contents of which comply, in terms of their form, attestations and information provided, with the provisions of Legislative Decree 135/2016.

The auditors' reports on the separate and consolidated financial statements do not contain any qualifications or emphases of matter. In addition, as required by the regulations, they refer to the auditing standards adopted and indicate the following as «key aspects»: classification and measurement of loans to customers (Loans) in the separate and consolidated financial statements.

On 2 May 2020, the legal auditor submitted to us the additional report envisaged in art. 1 of the Regulation (EU) 537/2010. That report does not highlight the presence of any significant weaknesses in the system of internal control over the process of preparing financial and/or accounting information that should be brought to the attention of the Board of Directors. The report also confirms that the audit work did not identify any significant questions regarding alleged or actual non-compliance with laws, regulations or the articles of association.

Finally, as regards the Report on operations accompanying the financial statements approved by the Board of Directors, we hereby certify that it was prepared in compliance with art. 81-ter of Consob Resolution 11971 dated 14 May 1999 («Issuers' Regulation»). The financial statements are also accompanied by the attestation referred to in para. 5 of art. 154-bis of Legislative Decree 58/1998, duly prepared and signed by the Managing Director and the Responsible Manager.

Although the auditing firm is responsible for performing the accounting checks, the Statutory Auditors still have a duty to monitor the preparation of the financial statements in both formal and substantive terms.

We have therefore checked that the directors complied with the Civil Code and the instructions issued by the Supervisory Authorities on the preparation of the financial statements regarding, in particular, the adoption of generally-accepted accounting standards, agreement between the contents of the financial statements and the results of operations during the year, and the completeness of the directors' report on operations.

In performing work on the financial statements, we maintained contact with the audit personnel of EY S.p.A. In this regard, we can confirm that:

– the financial statements for 2019 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS endorsed by the European Union and applied in the manner described in the explanatory notes;
– the report on operations is both complete and consistent with the data and other information provided in the financial statements; the report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to «other information», such as management of the risks relating to the activities of the Bank, human resources, the criteria underlying the Bank's mutual activities, promotional and cultural activities;
– the report also properly describes the significant events and transactions that have taken place subsequent to year end.

Consolidated financial statements

With regard to the consolidated financial statements, which report a profit of 137.435 million euro compared with 110.804 million in 2018, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. In this regard, we were able to confirm the functioning of the underlying systems for providing and checking the data concerned.

Closing remarks

Shareholders,

Given all of the above, to the extent of our responsibilities and considering the reports of EY S.p.A. and the attestations issued by the Managing Director and the Responsible Manager, this Board has no objections to the proposals made to the Shareholders' Meeting by the Board of Directors, including for allocation of the profit for the year that, among other matters, satisfies the ECB recommendation dated 27 March 2020, which encourages supervised banks not to pay dividends until at least 1 October 2020 and, in any case, to avoid irrevocable commitments to pay dividends for 2019 and 2020; we note that this is a prudent position to take, considering the current uncertainties caused by the reaction to the ongoing pandemic.

Sondrio, 4 May 2020

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

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year.
In addition to the other members of the Banking group,
these investments principally relate to the suppliers of products and services
that functionally support the commercial activities of the Bank.

SUBSIDIARIES

- BANCA POPOLARE DI SONDRIO (SUISSE) SA
- FACTORIT SPA
- BANCA DELLA NUOVA TERRA SPA
- PIROVANO STELVIO SPA
- SINERGIA SECONDA SRL
- POPSO COVERED BOND SRL
- RAJNA IMMOBILIARE SRL
- SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL

MAIN ASSOCIATED COMPANIES

- UNIONE FIDUCIARIA SPA
- ARCA HOLDING SPA
- ARCA VITA SPA
- ALBA LEASING SPA
- POLIS FONDI SGR PA
- COSSI COSTRUZIONI SPA
- RENT2GO SRL
- SOFIPO SA

The global offer of services for internationalisation is a real "One-Stop Desk" which companies can address for all their needs: from the first phase of approaching foreign markets to financial support for businesses across the border.

A variety of courses for all internationalisation needs.

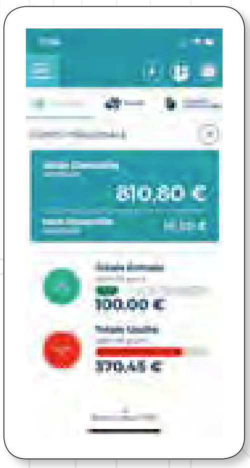
DIGITAL BANKING

The on-line bank that is intuitive and user-friendly!

- 16 different **payments** just a click away (bank transfer, pagoPA, M.Av., Post office payment slip...)
- Consultation of **balances and movements** on current accounts, payment cards, securities deposit...
- A **direct line** with the branch to request information
- **Receipt of** banking **documentation on-line**
- Consultation of the **on-line document archive**

Specific features are also available for business needs.

The bank always in your pocket!



- Facilitated access thanks to **fingerprint or face recognition**
- Operations in **mobility**
- **Simplified payments**, paying post office slips, M.Av. and pagoPA by taking a photo of it

SCRIGNO*IdentiTel*, to authorise transactions in a **fast and intuitive** way

THE BANK AND YOUNG PEOPLE

Banca Popolare di Sondrio offers a complete range of products dedicated to young people.

Conto 44 Gatti
a savings deposit book reserved for children aged 0-12.

SoPOP is the new online bank account dedicated to university students.
www.sopop.it

ateneo+ the university badge is also a contactless prepaid card with an IBAN.
www.ateneopiu.it

"MULTIPLUS" ACCOUNT

The current account as you want it!

A current account dedicated to individuals and families, offering a varied combination of services.

Make it according to your needs!

Complete and flexible!

BONUS under 27

Are you under 27?

MULTIplus awards you a **special discount** on the monthly fee

BONUS credit your salary or pension

Do you have your salary or pension credited to your current account?

With **MULTI**plus you can get a **reduction** on the monthly fee

BONUS FOR BPS SHAREHOLDERS

Are you a shareholder with at least 100 shares of Banca Popolare di Sondrio?

MULTIplus offers you an **exclusive benefit** on the monthly fee

CARTA +MA

The prepaid rechargeable card with IBAN
that has multiple features in a single payment instrument,
starting from the age of 14.

+young

+free

+complete

AMICO QUINTO

The worry-free loan.
A loan against the assignment of a fifth of salary/pension is ideal for employees and pensioners: SIMPLE, SAFE and SUSTAINABLE.

BNT BANCA
Gruppo Banca Popolare di Sondrio

INFORMATION

At Banca Popolare di Sondrio branches
and BNT Banca offices

Numero Verde 800-770033 servizio gratuito
amicoquinto@bancanuovaterra.it
ufficiocommerciale@bancanuovaterra.it

ADVANCE ON ACCRUED END-OF-SERVICE BENEFITS (ESB)

Reserved exclusively for retired public sector employees,
it allows pensioners to obtain an advance on their accrued end-of-service benefits.

For retired public sector employees

Advance

on accrued end-of-service benefits

tfs

Trattamento di Fine Servizio

Getting **your accrued end-of-service benefits in advance** **is now possible!**

ASSET MANAGEMENT

Years of experience and professionalism to best meet
the most diversified investment objectives of savers.

ARCA SGR

Mutual Funds Managed by ARCA SGR

Popso (Suisse) Investment Fund Sicav

Popso (SUISSE) Investment Fund SICAV

SIDERA FUNDS SICAV

Sidera Funds SICAV

etica SGR

Mutual Funds Managed by Etica SGR

ARCA VITA
ARCA VITA international

Insurance Solutions

GPM GPF

Portfolio and Fund Management

BANCASSURANCE AND PENSION SCHEMES

With the collaboration of long-standing partners Arca Vita, Arca Assicurazioni and Arca Fondi SGR, the Bank offers complete and innovative solutions in the insurance and pension sector.

ARCA SGR

BANCASSICURAZIONE
Insieme perché il tuo mondo è unico

Arca Previdenza
FONDO PENSIONE APERTO

ARCA VITA

ARCA ASSICURAZIONI

PUBLISHING

To revalue its home territory, its natural beauty, with an eye on the cultural heritage of the Valtellina: this is the Bank's constant commitment, also through the *Notiziario* and other publishing initiatives that are always much appreciated.

CULTURAL APPOINTMENTS

As always, since 1961 illustrious lecturers have taken turns
in entertaining the public on current affairs and cultural topics.

28 May 2019
in collaboration with Arca Fondi SGR

Marco Fortis
Professor at Università Cattolica del Sacro Cuore of Milan and Director of the Edison Foundation.

21 June 2019

Pinin Brambilla Barcilon
Professor, Teacher of restoration.

25 November 2019
in collaboration with Arca Fondi SGR

Paolo Del Debbio
Professor, TV host.

13 December 2019

Stefano Zamagni
Professor of Political Economics at Alma Mater Studiorum, University of Bologna and Chairman of the Pontifical Academy of Social Sciences.

95th WORLD SAVINGS DAY

At the Centro Polifunzionale Policampus in Sondrio, on the morning of Friday 13 December, Stefano Zamagni addressed over four hundred senior high school students and their teachers on "The need for happiness and the betrayal of libertarian individualism".

INITIATIVES AND MEETINGS

VI EDITION OF THE "**FESTIVAL OF CREATIVE CULTURE**" 29 March 2019

LEONARDO DA VINCI AND THE ATLANTIC CODE

"LUIGI CREDARO" Library, Sondrio

VI edition of the "Festival of Creative Culture", conceived and promoted by ABI, with a meeting at our "Luigi Credaro" library to honour the memory of Leonardo da Vinci.

XVIII EDITION OF "**INVITO A PALAZZO**" 5 October 2019

HISTORICAL AND ARTISTIC HERITAGE

BANCA POPOLARE DI SONDRIO, Head office in Sondrio

"LUIGI CREDARO" Library, Sondrio

"CARLO DONEGANI" historical museum, Stelvio Pass

XVIII edition of "Invito a Palazzo", an initiative of ABI, with guided visits to the "Luigi Credaro" library, to the art gallery of the head office in Sondrio and to the "Carlo Donegani" museum at the Stelvio Pass.

XX EDITION OF "LA MILANESIANA 2019" 8-9 July 2019

WAINER VACCARI. STATIONS

BANCA POPOLARE DI SONDRIO, Bormio

As part of the XX edition of the "Milanesiana", in collaboration with the Rotary Club Bormio Contea, the exhibition of paintings entitled "Stations" by the painter Wainer Vaccari was presented at branch no. 1 by Vittorio Sgarbi.

"VII MEETING WITH WINNERS OF NOBEL FOR LITERATURE" 28 December 2019

ALBERT CAMUS: THE STRANGER

"TERME CONFERENCE HALL", Bormio

At the Bormio Terme Conference Hall, the "VII Meeting with the winners of the Nobel Prize for Literature", a cultural event organised in collaboration with the "Culture Commission" of the Municipality of Bormio and dedicated to Albert Camus.

LUIGI CREDARO LIBRARY

The library for the economy and the territory

Named after the illustrious Valtellinese pedagogist, parliamentarian and Minister of Education from 1910 to 1914, it makes available to the public the precious book and documentary heritage of the Banca Popolare di Sondrio, almost 50,000 volumes and over 25,000 manuscripts. It preserves important collections including the Vilfredo Pareto Fund, the Credaro Fund and the Battista Leoni Fund.

Biblioteca
Luigi Credaro

Banca Popolare
di Sondrio

www.popso.bibliotecacredaro.it

Lungo Mallero Armando Diaz 18 - I - 23100 SONDRIO - Tel. +39 0342 562 270 - Fax +39 0342 510 825 - info@popso.bibliotecacredaro.it

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

PRESENTATION OF COMPARATIVE AMOUNTS

Considering the method adopted for the transition to IFRS 16, the Bank did restate the comparative figures in the year of first-time adoption of IFRS 16 on a consistent basis; the figures for 2018 are therefore not fully comparable.

BALANCE SHEET

(in euro)

	BALANCE SHEET		31-12-2019		31-12-2018
10.	CASH AND CASH EQUIVALENTS		**1,153,027,548**		**969,358,505**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**945,662,146**		**902,816,282**
	a) financial assets held for trading	225,786,507		263,767,542	
	c) other financial assets mandatorily measured at fair value	719,875,639		639,048,740	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**2,590,618,396**		**4,423,027,149**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**30,415,372,211**		**29,409,225,554**
	a) loans and receivables with banks	2,365,908,344		2,217,280,673	
	b) loans and receivables with customers	28,049,463,867		27,191,944,881	
70.	EQUITY INVESTMENTS		**620,398,948**		**562,154,499**
80.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**400,238,077**		**186,740,161**
90.	INTANGIBLE ASSETS		**14,167,977**		**14,762,412**
100.	TAX ASSETS		**369,299,404**		**414,827,084**
	a) current	–		26,977,883	
	b) deferred	369,299,404		387,849,201	
120.	OTHER ASSETS		**271,318,957**		**283,741,717**
	TOTAL ASSETS		**36,780,103,664**		**37,166,653,363**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS		31-12-2019		31-12-2018
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**33,139,673,205**		**33,770,793,630**
	a) due to banks	3,456,147,384		5,480,393,123	
	b) customer deposits	26,899,672,395		25,877,854,869	
	c) debt securities in issue	2,783,853,426		2,412,545,638	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**33,865,539**		**42,532,267**
60.	TAX LIABILITIES		**33,716,521**		**15,058,256**
	a) current	13,203,226		–	
	b) deferred	20,513,295		15,058,256	
80.	OTHER LIABILITIES		**777,619,715**		**710,725,874**
90.	POST-EMPLOYMENT BENEFITS		**41,237,849**		**40,637,713**
100.	PROVISIONS FOR RISKS AND CHARGES		**236,419,095**		**220,085,911**
	a) commitments and guarantees given	42,790,027		45,018,292	
	b) pension and similar obligations	152,526,396		139,028,680	
	c) other provisions for risks and charges	41,102,672		36,038,939	
110.	VALUATION RESERVES		**12,131,964**		**(16,195,773)**
140.	RESERVES		**990,903,675**		**885,551,458**
150.	SHARE PREMIUM RESERVE		**79,005,128**		**79,005,128**
160.	SHARE CAPITAL		**1,360,157,331**		**1,360,157,331**
170.	TREASURY SHARES (-)		**(25,321,549)**		**(25,321,549)**
180.	PROFIT (LOSS) FOR THE YEAR (+/-)		**100,695,191**		**83,623,117**
	TOTAL LIABILITIES AND EQUITY		**36,780,103,664**		**37,166,653,363**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

INCOME STATEMENT

(in euro)

ITEMS			31-12-2019		31-12-2018
10.	INTEREST AND SIMILAR INCOME		480,296,574		534,125,726
	of which: interest income calculated using the effective interest method	472,759,501		528,340,168	
20.	INTEREST AND SIMILAR EXPENSE		(94,701,450)		(96,813,061)
30.	**NET INTEREST INCOME**		**385,595,124**		**437,312,665**
40.	FEE AND COMMISSION INCOME		297,277,922		291,056,086
50.	FEE AND COMMISSION EXPENSE		(15,640,757)		(15,223,850)
60.	**NET FEE AND COMMISSION INCOME**		**281,637,165**		**275,832,236**
70.	DIVIDENDS AND SIMILAR INCOME		12,869,582		45,365,465
80.	NET TRADING INCOME		49,301,342		2,430,035
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:		35,756,120		5,486,518
	a) financial assets measured at amortised cost	23,055,929		2,122,269	
	b) financial assets measured at fair value through other comprehensive income	12,286,272		3,381,111	
	c) financial liabilities	413,919		(16,862)	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		12,139,386		(12,097,686)
	b) other financial assets mandatorily measured at fair value	12,139,386		(12,097,686)	
120.	**TOTAL INCOME**		**777,298,719**		**754,329,233**
130.	NET ADJUSTMENTS FOR CREDIT RISK:		(200,696,196)		(222,795,628)
	a) financial assets measured at amortised cost	(202,231,964)		(226,766,003)	
	b) financial assets measured at fair value through other comprehensive income	1,535,768		3,970,375	
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(3,287,718)		(2,838,879)
150.	**NET FINANCIAL INCOME**		**573,314,805**		**528,694,726**
160.	ADMINISTRATIVE EXPENSES:		(436,636,907)		(438,884,829)
	a) personnel expenses	(194,518,109)		(184,445,102)	
	b) other administrative expenses	(242,118,798)		(254,439,727)	
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(2,141,463)		(8,964,783)
	a) commitments and guarantees given	2,228,265		(10,811,263)	
	b) other net provisions	(4,369,728)		1,846,480	
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(36,152,651)		(13,982,158)
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(14,323,933)		(14,680,285)
200.	OTHER OPERATING INCOME/EXPENSE		65,566,086		56,159,483
210.	**OPERATING COSTS**		**(423,688,868)**		**(420,352,572)**
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		(284,123)		402,849
250.	NET GAINS ON SALES OF INVESTMENTS		5,363		21,212
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**149,347,177**		**108,766,215**
270.	INCOME TAXES		(48,651,986)		(25,143,098)
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**100,695,191**		**83,623,117**
300.	**PROFIT (LOSS) FOR THE YEAR**		**100,695,191**		**83,623,117**

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts		2019	2018
10.	**Profit (loss) for the year**	**100,695,191**	**83,623,117**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	(17,832,672)	10,614,393
70.	Defined-benefit plans	(6,887,641)	2,869,166
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	53,048,050	(76,079,545)
170.	**Total other income items net of income taxes**	**28,327,737**	**(62,595,986)**
180.	**Comprehensive income (Item 10+170)**	**129,022,928**	**21,027,130**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
Share capital					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves					
a) from earnings	885,551,458	–	885,551,458	61,036,328	–
b) other	–	–	–	–	–
Valuation reserves	**(16,195,773)**	**–**	**(16,195,773)**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**83,623,117**	**–**	**83,623,117**	**(61,036,328)**	**(22,586,789)**
Equity	**2,366,819,712**	**–**	**2,366,819,712**	**–**	**(22,586,789)**

A dividend from the results for 2018 of € 0.05 per share, totalling € 22.669 million, was paid on 22 May 2019.

Considering the ECB recommendation that banks should not distribute profits, but give priority to strengthening their capital as part of tackling the COVID-19 emergency, the Bank has decided not to propose the payment of a dividend for 2019.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
Share capital					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves					
a) from earnings	856,064,897	(56,925,477)	799,139,420	86,818,599	–
b) other	–	–	–	–	–
Valuation reserves	**38,642,710**	**7,757,504**	**46,400,214**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**118,400,102**	**–**	**118,400,102**	**(86,818,599)**	**(31,581,503)**
Equity	**2,426,948,619**	**(49,167,973)**	**2,377,780,646**	**–**	**(31,581,503)**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31.12.2019	**Equity at 31.12.2019**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
44,315,889	–	–	–	–	–	–	**–**	**990,903,675**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**28,327,737**	**12,131,964**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**100,695,191**	**100,695,191**
44,315,889	**–**	**–**	**–**	**–**	**–**	**–**	**129,022,928**	**2,517,571,740**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 31.12.2018	**Equity at 31.12.2018**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(406,561)	–	–	–	–	–	–	**–**	**885,551,458**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**(62,595,987)**	**(16,195,773)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**83,623,117**	**83,623,117**
(406,561)	**–**	**–**	**–**	**–**	**–**	**–**	**21,027,130**	**2,366,819,712**

CASH FLOW STATEMENT (Indirect method)

	31/12/2019	31/12/2018
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**474,198,471**	**527,410,389**
– profit for the year (+/-)	100,695,191	83,623,117
– gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	(10,877,000)	45,494,900
– net hedging gains (losses) (-/+)	–	–
– net adjustments for credit risk (+/-)	220,451,632	248,563,459
– depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	50,476,584	28,662,443
– provisions for risks and charges and other costs/revenues (+/-)	26,634,877	35,280,146
– unpaid taxes, duties and tax credits (+)	48,651,986	25,143,098
– net impairment adjustments to disposal groups, net of tax effect (+/-)	–	–
– other adjustments (+/-)	38,165,201	60,643,226
2. **Cash generated/absorbed by financing activities**	**660,538,633**	**1,214,622,639**
– financial assets held for trading	46,222,776	41,003,832
– financial assets designated at fair value	–	–
– financial assets mandatorily measured at fair value through profit and loss	(72,112,380)	(166,232,578)
– financial assets measured at fair value through other comprehensive income	1,913,728,908	2,462,525,115
– financial assets measured at amortised cost	(1,271,776,180)	(1,102,484,282)
– other assets	44,475,509	(20,189,448)
3. **Cash generated/absorbed by financial liabilities**	**(852,203,621)**	**(782,155,228)**
– financial liabilities measured at amortised cost	(879,658,915)	(867,101,446)
– financial liabilities held for trading	(14,776,727)	(17,937,537)
– financial liabilities measured at fair value	–	–
– other liabilities	42,232,021	102,883,756
Net cash generated/absorbed by operating activities	**282,533,483**	**959,877,800**

	31/12/2019	31/12/2018
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**9,373,057**	**16,327,165**
– sales of equity investments	–	–
– dividends collected from equity investments	9,365,070	16,311,510
– sales of property, equipment and investment property	7,987	15,655
– sales of intangible assets	–	–
– sale of business divisions	–	–
2. **Cash absorbed by**	**(86,089,299)**	**(87,448,395)**
– purchases of equity investments	(58,528,572)	(55,824,473)
– purchases of property, equipment and investment property	(13,831,228)	(16,577,281)
– purchases of intangible assets	(13,729,499)	(15,046,641)
– purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(76,716,242)**	**(71,121,230)**
C. **FINANCING ACTIVITIES**		
– issues/purchases of treasury shares	–	–
– issues/purchases of equity instruments	–	–
– distribution of dividends and other uses	(22,486,789)	(31,737,004)
Net cash generated/absorbed by financing activities	**(22,486,789)**	**(31,737,004)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**183,330,452**	**857,019,566**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2019	31/12/2018
Cash and cash equivalents at beginning of year	969,358,505	112,049,023
Total net cash generated/absorbed in the year	183,330,452	857,019,566
Cash and cash equivalents: effect of change in exchange rates	338,591	289,916
Cash and cash equivalents at end of year	**1,153,027,548**	**969,358,505**

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c.p.a. declares that these financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2019 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Legislative Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

The financial statements of the Bank at 31 December 2019 were approved by the Board of Directors on 9 April 2020.

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations.
   Considering the structure of deposits based essentially on customer current accounts and loans, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Bank's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. As allowed on first-time adoption of IFRS 16 «Leases» from 1 January 2019, the Bank has elected not to restate the comparative figures. In this regard, reference should be made to the following paragraph «Other aspects» for an explanation of the changes introduced by IFRS 16, as well as for a description of the impacts for the Bank deriving from first-time adoption (FTA) of this new standard. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

The figures in the notes are shown in thousands of euro.

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 09/04/2020 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

The Wuhan Municipal Health Commission reported cases of pneumonia in Wuhan (China), due to unknown causes, to the World Health Organisation at the end of 2019. On 30 January the World Health Organisation declared the epidemic to be an international public health emergency, raising the coronavirus threat level to «very high» on 28 February 2020.

Consistent with the provisions of IAS 10, the healthcare emergency linked to COVID-19 has been treated by the Bank as a type of subsequent event that does not require adjustment of the financial statements, because the epidemic and its consequences took place after the reporting date. The effects on the Italian and international economies of the spread of COVID-19 and the regulatory and administrative measures adopted as a consequence are difficult to quantify, given the uncertainties associated with the phenomenon. Doubts about the recovery of trade and economic activity in general are certainly indicative of a likely decline in global economic growth. The impact of this exceptional event on the macroeconomic situation faced by the Bank will be reflected in the IFRS 9 estimates of the loan losses expected in 2020. The banking system is duty bound to consider the likely impact of the deteriorating macroeconomic situation when measuring its outstanding exposures and granting new loans. Nevertheless, the extremely sudden, never before seen, nature of the economic crisis induced by the reaction to COVID-19, also means that banks must avoid excessive reactions that would recognise in the financial statements many deteriorations which may only be temporary. Over the coming months, it will be necessary to identify those counterparties whose creditworthiness has been altered structurally as a consequence of the crisis.

Banks will need to take this action on a timely basis in order to preserve their financial strength. Albeit mitigated by the corrective measures adopted by the government, the contraction in economic activity will have adverse effects on asset quality that, in accordance with IFRS 9, will need to be considered during 2020.

Section 4 *Other aspects*

The accounting policies applied during the period under review are consistent with those of the prior year, except for the adoption of IFRS 16 Leases from 1 January 2019.

The new accounting standards and amendments to existing standards approved by the IASB are summarised below, together with the new interpretations and amendments published by the IFRIC and in force from 1 January 2019:

- Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.
- Commission Regulation (EU) 2018/498 dated 22 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2019.
- Regulation (EU) 2018/1595 of 23 October 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 23. This applies from 1 January 2019.
- Regulation (EU) 2019/237 dated 11 February 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. This applies from 1 January 2019.
- Regulation (EU) 2019/402 dated 14 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. This applies from 1 January 2019.
- Regulation (EU) 2019/412 dated 15 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Annual Improvements to IFRS Standards 2015-2017 Cycle. This applies from 1 January 2019.

New accounting standards and/or amendments to existing standards that must be applied subsequent to 31 December 2019:

- Regulation (EU) 2020/34 dated 15 January 2020 which issued the «IBOR Reform» document modifying certain hedge accounting requirements. This enables entities to report useful information during the period of uncertainty caused by the gradual elimination of benchmark interest rates by the end of 2021. The principal points of this document relate to the highly-probable requirement for the hedging of cash flows (i.e. if the hedged element consists of a programmed operation, the entity must determine if that operation is highly probable, assuming that the benchmark interest rate underlying the hedged cash flows does not change as a result of the reform), to assessment of the relation between the hedged element and the hedging instrument (the entity must assume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument do not change as a result of the reform), to forward-looking and retrospective assessments (the entity must presume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument will not change as a result of the reform), and to the designation of a component of risk as the hedged element (the entity must apply the specific provisions of IFRS 9/IAS 39 if the risk component affected by the reform is only identifiable separately at the start of the hedging relationship; it is not necessary to remeasure or redesignate a hedging relationship if the hedge is dynamic). This applies from 1 January 2020.

- Regulation (EU) 2019/2075 dated 29 November 2019 which adopts amendments to update existing references in several standards and interpretations to previous frameworks with references to the revised conceptual framework. This applies from 1 January 2020.
- Regulation (EU) 2019/2104 dated 29 November 2019 which clarifies the definition of «material» to make it easier for companies to make materiality judgements and to enhance the relevance of the disclosures in the notes to the financial statements, in accordance with the amendments made to IAS 1 and IAS 8. This applies from 1 January 2020.

Amendments and new accounting standards not yet endorsed:

- *Amendment to IFRS 3 Business Combinations*, issued by the IASB on 22 October 2018 to help determine whether a transaction is the acquisition of a business or a group of assets that does not satisfy the IFRS 3 definition of a business. This applies from 1 January 2020.
- Amendments to IAS 1 Financial Statement Presentation: Classification of liabilities as current or non-current. On 23 January 2020 the IASB publish an amendment to IAS 1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
  - clarification about how loan conditions influence classification; and
  - clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

  This applies from 1 January 2022.

The above amendments and interpretations, including IFRS 16, have not had a significant effect on the economic and financial position of the Bank.

In addition, on 18 May 2017 the IASB issued IFRS 17 which governs the policies written by insurance companies.

This standard applies from 1 January 2022.

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

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

These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the 2019 financial statements, as required by prevailing accounting standards and relevant regulation.

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

The analyses performed confirm the carrying amounts of the items mentioned at 31 December 2019.

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

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2019.

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

IFRS 16: Leases

IFRS 16, the new standard on leases issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, from 1 January 2019 replaces IAS 17 and the related interpretations to clarify the definition of a lease (IFRIC 4 «Determining whether an arrangement contains a lease»; SIC 15 «Operating leases - incentives» and SIC 27 «Evaluating the substance of transactions involving the legal form of a lease») eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a lease asset («right of use») and the related lease liability in the financial statements. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions. The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

On signing the contract, the entity must determine if the contract is, or contains, a lease. The contract is, or contains, a lease if:

- in exchange for a consideration, it grants the right to control the use of a specific asset for a period of time,
- during the entire period of use, the customer will have the right to obtain substantially all the economic benefits deriving from use of the asset and the right to decide how the asset should be used.

At the contract start date, the lessee must recognise both the right-of-use asset and the leasing liability. On the date of initial recognition, the lease liability is the present value of the lease payments not yet made at that date. Subsequently, the amount of the leasing liability is determined by increasing the carrying amount by the interest charged, decreasing it by the lease payments made and recalculating it with reference to any changes made to the lease or new considerations.

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the leasing liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost and depreciated over the life of the contract or over its useful life if the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option.

In economic terms, the lease instalments previously recognised as administrative expenses are replaced by recognition of the interest charged on the leasing liability and the depreciation charged on the right of use.

On FTA, the lessee has two options for applying the standard. The lessee can apply the new standard to its lease contracts:

a) retrospectively applying IAS 8 «Accounting policies, changes in accounting estimates and errors» and restating the comparative data; or

b) retrospectively recognising the cumulative effect of apply the standard as an adjustment of the opening balance of retained earnings on the first-time application date (without restating the comparative data).

The Bank decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard. Instead, the Bank elected to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8. According to this approach:

- the right of use is equal to the lease liability, i.e. it is equal to the present value of the future instalments to be paid for the expected duration of the contract and attributable to the lease component, net of VAT, discounted on the basis of the incremental borrowing rate on the date of FTA. adjusted for any prepaid expenses or accrued liabilities relating to the lease;
- the comparative figures for 2018 are not restated.

Lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

As allowed by IFRS 16, the Bank opted to apply the following practical expedients on transition to the new standard:

a) exclusion from balance sheet recognition of lease contracts with a residual duration not exceeding 12 months (regardless of the original duration of the contract);

b) estimation of lease duration based on prior experience and the information available on the date of first-time adoption about the future exercise of any extension or early termination options.

The operating rules used by the bank during the FTA phase for lease contracts classified as operating leases according to IAS 17 are summarised below:

- the low-value contract exemption has been applied: the threshold applied is consistent with the USD 5,000 provided for in IFRS 16. This includes mobile phones not owned by the Company;
- the short-term contract exemption has been applied to contracts that end within 12 months of being applied for the first time. In particular, this includes property contracts with a release date within the same term.
- the practical expedient of not separating service components from the lease components has not been applied, which means that the entire contract is accounted for as a lease;
- for the recognition and measurement of the lease payable at 1 January 2019:
    a. the discount rate applied was set by using the «incremental borrowing rate» approach based on the duration of the contract at 1 January 2019. Specifically, the methodology adopted by the Group envisages that the incremental borrowing rate should be determined as the risk-free borrowing rate plus a spread to reflect the total cost of funding. This rate therefore takes into account the creditworthiness of the lessee, the duration of the lease and the macroeconomic context in which the transaction takes place.
    b. the lease duration was determined by applying the principle of reasonableness; in particular, the bank has decided to consider only the first renewal period as reasonably certain on the FTA date (and on new contracts), unless there are specific contractual clauses, facts or circumstances that lead one to consider additional renewals or to determine the end of the lease;

c. for the quantification of the right of use at 1 January 2019, the practical expedient used was to exclude initial direct costs from the measurement.

- The practical expedient envisaged by IAS 37 was applied to the evaluation of the onerous nature of the leases.

Banca Popolare di Sondrio transition to IFRS 16

Reconciliation of financial position at 31 December 2018 to the new financial position at 1 January 2019.

The table summarises the impact of adopting the new standard on each asset, liability and equity component of the balance sheet format laid down by the 6th update to Bank of Italy Circular 262/05. Note that rights of use are recognised as part of «Property, equipment and investment property» and are not therefore shown separately in the balance sheet.

The «31/12/2018» column shows the amounts of the balance sheet items on that date, the «Change» column shows the amounts deriving from the recognition of contracts according to the new accounting standard, while the «01/01/2019» column shows the new amounts of assets and liabilities following the transition to the new standard, being the sum of the figures in the other two columns.

Figures are stated in thousands of euro.

Asset items	31/12/2018	Change	01/01/2019
80. Property, equipment and investment property	186,740	233,611	420,351
120. Other assets	283,742	(1,128)	282,614
Total assets	**37,166,653**	**232,483**	**37,399,136**

Equity and liability	31/12/2018	Change	01/01/2019
10. Financial liabilities measured at amortised cost	33,770,794	232,483	34,003,277
a) Due to banks	5,480,393	–	5,480,393
b) Customer deposits	25,877,855	232,483	26,110,338
c) Debt securities in issue	2,412,546	–	2,412,546
Total liabilities and equity	**37,166,653**	**232,483**	**37,399,136**

Details of the impacts shown in the table are as follows:

- Euro 233.611 million representing the value of the right of use connected to the lease of buildings, vehicles and electronic office equipment;
- Euro 232.483 million for the related lease liability to lessors given by the present value of lease payments due but not paid on the FTA date;
- –Euro 1.128 million for prepaid expenses accounted for at 31 December 2018 for lease payments that are no longer subject to recognition following the introduction of the new standard, as the new accounting treatment envisages precise recognition of the lease liability.
- the above changes arising on FTA, almost entirely attributable to property lease contracts, did not give rise to the recognition of profits or losses as a result of FTA to be recorded under equity and are immaterial with respect to CET1.

The provisions introduced by IFRS 16, on FTA, entailed the recognition under assets of the rights of use and of the corresponding financial liabilities for property lease agreements and car rental contracts. The non-lease components of these types of contracts are accounted for separately in accordance with IFRS 15.

As regards the discount rate, as reported above, the lease liabilities have been discounted at the rate as of 1 January 2019 with reference to the maturities of the individual contracts.

In particular, the weighted average of the lessee's weighted incremental borrowing rate, applied to lease liabilities, recognised in the statement of financial position at the date of first-time application is 1.82%.

According to the provisions of IFRS 16.C12, the following table compares the scope of leases as defined by IAS 17 with the scope as defined by the new standard:

Reconciliation of lease liabilities	
Minimum future liabilities at 31 December 2018 - IAS 17 operating lease commitments not discounted	**265,467**
Exceptions to IFRS 16 recognition	**372**
- contracts ending within 12 months from the date of initial application	2
- contracts whose underlying asset is of low value	370
Other changes	**(10,115)**
Lease liabilities at 1 January 2019 not discounted	**254,980**
Discounting effect	(22,497)
Lease liabilities at 1 January 2019	**232,483**
Lease liabilities for financial leases under IAS 17 at 1 January 2019	261
Total lease liabilities at 1 January 2019	**232,744**

The following detail is also provided in order to explain the various categories of rights of use that have been identified and the various impacts on the balance sheet items:

	Assets	**Liabilities**			
Impacts on balance sheet items	Lease liabilities	Prepayments at 31 December 2018	Recovery costs (provision for charges)	Total at 1 January 2019	Total al 1 January 2019
Property, equipment and investment property used for business purposes	**232,483**	**1,128**	**-**	**233,611**	**-**
- land	-	-	-	-	-
- buildings	232,262	1,128	-	233,390	
- furniture	-	-	-	-	-
- plant	214	-	-	214	-
- others	7	-	-	7	-
Rights of use purchased with a lease (adjusted for prepayments and recovery costs)	**232,483**	**1,128**	**-**	**233,611**	**-**
Prepayments at 31 December 2018 (deducted from other assets)	-	-	-	(1,128)	-
Total assets at 1 January 2019*	**-**	**-**	**-**	**232,483**	**-**
Lease liabilities	**-**	**-**	**-**	**-**	**232,483**
Recovery costs	-	-	-	-	-
Total Liabilities at 1 January 2019*	**-**	**-**	**-**	**-**	**232,483**
Equity (retained earnings)	**-**	**-**	**-**	**-**	**-**

* Net of existing finance leases at the transition date.

A.2 Part relating to the main line items in the financial statements

Classification of financial assets

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

Held to Collect (HTC)

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

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

The bank holds the following within an HTC business model:

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

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The bank has decided not to use the HTC&S business model for loans, but does use it for securities (most of the securities held as financial assets available for sale under IAS 39 have been included here).

Others (FVTPL)

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

The bank holds the following within an «Others» business model:

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

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

Solely Payment of Principal and Interest Test (SPPI test)

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

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

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

- Non-standard contracts, for which the test is performed individually for each amount.

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

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

Classification

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

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

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

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

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

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

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

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

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

Classification

This line item includes all financial assets (fixed-yield securities, variable-yield securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (variable-yield securities).

The following are classified in the portfolio measured at fair value through other comprehensive income:

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

Recognition

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

With regard to fixed-yield securities and loans, the Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

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

Accounting policies

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

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

At each reporting date, fixed-yield securities classified as «fair value through other comprehensive income» are subjected to impairment testing using a framework similar to that established for financial instruments measured at amortised cost (see Chapter 3). Any subsequent writebacks cannot exceed the impairment losses recorded previously.

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

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from changes in fair value , net of the related deferred tax effect, are recognised in an equity reserve named «Valuation reserves», composed of the sub-items «Valuation reserves: Variable-yield securities designated at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of variable-yield securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 140).

Dividends are shown under «dividends and similar income».

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

Derecognition

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

3. Financial assets measured at amortised cost

Classification

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

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products).

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

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

   Also included are:

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

Recognition

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

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

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

The Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

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

In order to measure the impairment adjustments required for expected losses, financial assets measured at amortised cost are classified in one of the following stages:

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

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

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

In particular:

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

of the financial instrument, weighted for the probability of occurrence of the default event.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios. In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

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

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

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

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

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

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

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

Expected Loss		Expected Loss - Disposal Scenario *			Expected Loss - Internal Management
Individual	=	Probability of		+	Scenario * Probability of occurrence
Position		occurrence	of Disposal		of Internal Management

Recognition of components affecting the income statement

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

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

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

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

Derecognition

Financial assets are derecognised when the contractual rights over the cash flows deriving from them expire or are extinguished, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

IFRS 9 thus confirms the rules for derecognition of financial assets already established by IAS 39. Accordingly, financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

However, the standard includes new guidance on:

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

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

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

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

3.1 Commitments and guarantees given

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

4. Hedging derivatives

Classification and recognition

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

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

The hedging of market risks can take two different forms:

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

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

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

Measurement and recognition of components affecting the income statement

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

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

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

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

– derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
– the hedged item continues to be valued on the basis applicable to the category concerned;
– the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

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

Derecognition

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

5. Equity investments

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those classified as «financial assets measured at fair value through other comprehensive income». Control is presumed to exist when the Bank 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 is therefore 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.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights 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.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

Equity investments are initially recognised at cost on the acquisition date, whereby cost normally coincides with the amount paid, including transaction costs.

Accounting policies

Equity investments are subsequently valued at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

Dividends are accounted for in the year they are collected and shown under «dividends and similar income».

Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «net gains (losses) on equity investments».

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. From 1 January 2019, the rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

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

Recognition

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

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease. When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

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

At the time the contract begins, the lessee recognises:

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

The lease term is determined by taking into account:

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

Accounting policies

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

With regard to lease contracts, the lessee must:

- assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36

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

Recognition of components affecting the income statement

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

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

The economic effects of a leasing contract are recognised in the income statement of the lessee as follows:
- under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
- under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

Derecognition

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

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

7. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

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

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

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic. straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

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

9. Current and deferred taxation

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

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

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about tax treatments adopted by the Company, given the complexity of tax legislation.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method.

Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;

– the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

– the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
– in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that their recovery is probable; this is assessed by carrying out a probability test, based on the ability of the Bank or its tax group to continue generating taxable income. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

– The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
– Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed.
– The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
   1. the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
   2. it is likely that settlement of the obligation will involve the use of economic resources;

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

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

11. Financial liabilities measured at amortised cost

Classification

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

Recognition

The above financial liabilities are recognised in the financial statements at the settlement date. They are initially recognised at their fair value, which is usually represented by the amount collected.

This amount does not include the charges made to creditors in order to recover administrative costs.

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

Accounting policies

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

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

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

Recognition of components affecting the income statement

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

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

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied.

Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

12. Financial liabilities held for trading

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

13. Financial liabilities designated at fair value

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

14. Currency transactions

Classification

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

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

15. Termination indemnities

Post-employment benefits (i.e. termination indemnities) are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, for the portion of the amount accrued. Under the projected unit credit method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary.

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

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

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

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

Share-based payments - Transactions settled using equity instruments

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

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

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

Revenues from contracts with customers

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

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

Contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

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

Income from dividends

Dividends are recognised when the right to collect them arises.

Treasury shares

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

Covered bonds

See Part E, section E.4, of these notes to the financial statements.

Interbank Deposit Protection Fund - Voluntary Scheme

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

Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by art. 35 of Legislative Decree 34 dated 30/4/2019 (so-called «Growth decree»)

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

Transfer of financial assets held for trading

As in the previous year, the Bank did not reclassify any financial assets.

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

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the bank considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the bank. The results reported in future might, in fact, differ significantly from the estimates made when preparing the financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated. The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the bank, include the direct and indirect adverse consequences for the Italian and global economies of the COVID-19 pandemic. After starting in China during January 2020, this has now spread worldwide and is discussed further in the «Outlook for operations» section of the Report on operations.

At the time of preparing this financial report, the following information and sensitivity analyses regarding the principal reporting captions are considered to be subject to estimates

- losses expected on credit exposures
- measurement of financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)
- recoverability of deferred tax assets
- liabilities defined benefit payments to employees,

and may provide guidance about the uncertainties that exist at the time of preparing this Financial Report, which are compounded by the effects of the reaction to the COVID-19 pandemic, as described further in «Section 3 – Significant subsequent events». The new estimates needed in this context during 2020, in order to update the current and forward-looking scenarios, are likely to highlight adverse changes to the principal reporting captions subject to estimates including, in particular, the security and loan portfolios, as well as to the scenarios considered for the sensitivity analyses carried out at 31 December 2019.

The accounting policies considered most sensitive when it comes to providing useful information for the true and fair presentation of the economic and financial position of the bank are summarised below, having regard for materiality considerations and the great complexity of the assessments and measurements made. Reference is made to specific sections of the notes to the financial statements for detailed information about the measurement processes followed at 31 December 2019.

Loans are one of the measured captions most exposed to the choices made by the bank in terms of granting and managing credit and monitoring the risk. Without prejudice to the upcoming discussion in Section 1 - Credit risk, on the quantitative and qualitative nature of credit management, the bank manages the risk of borrower default by monitoring continuously the changes in credit risk inherent in the various loan portfolios. In particular, in order to determine the impact of the losses expected following the selection of various macroeconomic scenarios, the section dedicated to credit risk in Part E of these notes to the financial statements contains a sensitivity analysis of the losses expected on performing loans to customers.

In addition with regard to impaired loans, given the major planned disposal described in the report on operations with regard to the Diana project, it is also necessary to adopt a multi-scenario approach by estimating the cash flows recoverable from the disposal, as an alternative to those considered obtainable from the internal management (work out) scenario; or recovery times; or estimated recoverable value of buildings and other guarantees. In this context and considering a range of possible approaches to the development of estimation models allowed by the relevant international accounting standards, the adoption of a specific methodology or the selection of certain estimation parameters may influence significantly the measured value of loans. These methodologies and parameters are subject to a physiological update process designed to refine the estimates made to determine, in the best possible way, the realisable value of credit exposures. In particular, in order to determine the expected loss on performing loans and update the time series of risk parameters and macroeconomic factors using the latest forecasts available, a number of enhancements were made to the models in 2019 with a view to improving the estimates of expected credit loss in terms of Point-in-Time and Forward-Looking default risk, as required by IFRS 9. Overall, these changes did not have a significant impact on the economic and financial position of the bank. In any case, it is quite possible that the introduction of alternative monitoring criteria or different methodologies, parameters and assumptions for determining the recoverable value of credit exposures - influenced in part by changes in the alternative recovery strategies approved by the competent corporate bodies, or by significant adverse changes in the relevant economic-financial and regulatory environment - could result in different measurements and valuations to those made for the purpose of preparing the financial statements at 31 December 2019.

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

The significant assets carried in the balance sheet of the bank include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they will become tax deductible. The recognition of these assets and their subsequent retention in the balance sheet is dependent on verification of their recoverability. This involves the performance of a probability test that, inter alia, takes account of the tax regulations in force at the reporting date. At 31 December 2019, the bank has recognised deferred tax asset totalling about 309 million that satisfy the requirements of Law 214 dated 22 December 2011, which are transformable into tax credits in the event of a «reported loss », a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. For the residual tax assets that cannot be converted into tax credits, on the basis of the provisions of accounting standard IAS 12 and the considerations formulated by ESMA in the document of 15 July 2019, the required verification of recoverability was carried out by analysing the probability of having sufficient taxable income in the future. In particular, the forecast of profitability that underpins the opinion on recoverability is based on reasonable and realistic hypotheses and assumptions. It also applies a weighting factor that expresses the relative degree of uncertainty, which increases along with the estimation time horizon. This said, the recoverability of all the deferred tax assets might be adversely influenced by further changes in the current tax regulations, which are not foreseeable at this time. Section 10 - «Tax assets and tax liabilities», contained in Part B - Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

There were no transfers during the year due to changes in business model.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

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

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

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

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

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

The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

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

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

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

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities measured using prices obtained from previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact

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

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.05% under the adverse scenario and higher by 0.06% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.

b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.22% under the adverse scenario and higher by 0.21% under the favourable scenario).

   Here too, the changes were very limited because the credit risk associated with most of these instruments is low.

c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 0.41% following an increase in the rate curves and, conversely, increased by 1.67% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.

d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +1.97%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -0.89% if the rate curves are shifted up, and +1.11% if they are shifted down.

A.4.3 Fair value hierarchy

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

a) prices (without adjustments) on active markets - according to the definition of IAS 39 – for the assets and liabilities being measured (level 1);
b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

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

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

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	31/12/2019			31/12/2018		
Financial assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	170,637	351,515	423,509	210,108	332,863	359,846
a) Financial assets held for trading	170,496	47,185	8,105	209,478	54,290	–
b) Financial assets designated at fair value	–	–	–	–	–	–
c) Other financial assets mandatorily measured at fair value	141	304,330	415,404	630	278,573	359,846
2. Financial assets measured at fair value through other comprehensive income	2,517,070	–	73,548	4,306,378	–	116,649
3. Hedging derivatives	–	–	–	–	–	–
4. Property, equipment and investment property	–	–	–	–	–	–
5. Intangible assets	–	–	–	–	–	–
Total	**2,687,707**	**351,515**	**497,057**	**4,516,486**	**332,863**	**476,495**
1. Financial assets held for trading	–	33,676	190	–	42,532	–
2. Financial liabilities designated at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	–	–	–	–	–
Total	**–**	**33,676**	**190**	**–**	**42,532**	**–**

There were no transfers between fair value levels during the year.

The impact of the CVA and DVA on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**359,846**	**–**	**–**	**359,846**	**116,649**	**–**	**–**	**–**
2. **Increases**	**179,779**	**8,160**	**–**	**171,619**	**21,163**	**–**	**–**	**–**
2.1. Purchases	158,180	8,000	–	150,180	9,503	–	–	–
2.2. Income booked to:	14,826	160	–	14,666	9,010	–	–	–
2.2.1 Income statement	14,826	160	–	14,666	–	–	–	–
- of which realized gains	11,548	160	–	11,388	–	–	–	–
2.2.2 Equity	–	–	–	–	9,010	–	–	–
2.3 Transfers from other levels	–	–	–	–	2,413	–	–	–
2.4 Other increases	6,773	–	–	6,773	237	–	–	–
3. **Decreases**	**116,116**	**55**	**–**	**116,061**	**64,264**	**–**	**–**	**–**
3,1. Sales	3,670	–	–	3,670	–	–	–	–
3.2. Reimbursements	70,230	–	–	70,230	260	–	–	–
3.3. Losses booked to:	20,168	55	–	20,113	13,860	–	–	–
3.3.1. Income statement	20,168	55	–	20,113	–	–	–	–
- of which losses	20,144	55	–	20,089	–	–	–	–
3.3.2. Equity	–	–	–	–	13,860	–	–	–
3.4. Transfers from other levels	–	–	–	–	9,539	–	–	–
3.5. Other decreases	22,048	–	–	22,048	40,605	–	–	–
4. Closing balance	**423,509**	**8,105**	**–**	**415,404**	**73,548**	**–**	**–**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Changes during the year in liabilities carried at fair value (level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**–**	**–**	**–**
2. **Increases**	**190**	**–**	**–**
2.1 Issues	–	–	–
2.2. Losses booked to:	190	–	–
2.2.1. Income statement	190	–	–
- of which losses	190	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**–**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	–	–	–
3.3.1. Income statement	–	–	–
- of which realized gains	–	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**190**	**–**	**–**

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	30,415,372	6,393,563	–	24,648,663	29,409,225	5,832,355	–	24,469,441
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**30,415,372**	**6,393,563**	**–**	**24,648,663**	**29,409,225**	**5,832,355**	**–**	**24,469,441**
1. Financial liabilities measured at amortised cost	33,139,672	2,598,332	226,661	30,355,819	33,770,794	2,156,641	249,130	31,358,248
2. Liabilities associated with assets held for sale								
Total	**33,139,672**	**2,598,332**	**226,661**	**30,355,819**	**33,770,794**	**2,156,641**	**249,130**	**31,358,248**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

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

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

PART B Information on the balance sheet

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2019	31/12/2018
a) Cash	140,720	133,209
b) Unrestricted deposits with central banks	1,012,308	836,150
Total	**1,153,028**	**969,359**

Section 2 Financial assets measured at fair value through profit or loss - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2019			31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	82,698	–	–	126,131	–	–
1.1 Structured securities	–	–	–	1,925	–	–
1.2 Other fixed-yield securities	82,698	–	–	124,206	–	–
2. Variable-yield securities	57,212	–	–	83,095	–	–
3. Mutual funds	30,586	11,808	–	252	9,898	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**170,496**	**11,808**	**–**	**209,478**	**9,898**	**–**
B. **Derivatives**						
1. Financial derivatives:	–	35,377	8,105	–	44,392	–
1.1 for trading	–	35,377	8,105	–	44,392	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**–**	**35,377**	**8,105**	**–**	**44,392**	**–**
Total (A+B)	**170,496**	**47,185**	**8,105**	**209,478**	**54,290**	**–**

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	**31/12/2019**	**31/12/2018**
A. **Cash assets**		
1. Fixed-yield securities	82,698	126,131
a) Central banks	–	–
b) Public administrations	82,698	113,096
c) Banks	–	11,109
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	1,925
2. Variable-yield securities	57,212	83,095
a) Banks	7,288	26,202
b) Other financial companies	4,314	4,084
of which: insurance companies	3,249	1,854
c) Non-financial companies	45,610	52,809
d) Other issuers	–	–
3. Mutual funds	42,395	10,150
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**182,305**	**219,376**
B. **derivatives**		
a) Central Counterparties	–	–
b) Other	43,482	44,392
Total (B)	**43,482**	**44,392**
Total (A+B)	**225,787**	**263,768**

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

	31/12/2019			**31/12/2018**		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**37,335**	**–**	**–**	**41,750**
1.1 Structured securities	–	–	37,132	–	–	41,750
1.2 Other fixed-yield securities	–	–	203	–	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**2**
3. **Mutual funds**	**142**	**304,330**	**117,738**	**630**	**278,573**	**112,872**
4. **Loans**	**–**	**–**	**260,331**	**–**	**–**	**205,222**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	260,331	–	–	205,222
Total	**142**	**304,330**	**415,404**	**630**	**278,573**	**359,846**

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

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2019	31/12/2018
1. **Variable-yield securities**	**–**	**2**
of which: banks	–	2
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**37,335**	**41,750**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	31,331	35,516
of which: insurance companies	–	–
e) Non-financial companies	6,004	6,234
3. **Mutual funds**	**422,210**	**392,075**
4. **Loans**	**260,331**	**205,222**
a) Central banks	–	–
b) Public administrations	93	126
c) Banks	–	–
d) Other financial companies	50	14,355
of which: insurance companies	–	–
e) Non-financial companies	177,996	111,898
f) Households	82,192	78,842
Total	**719,876**	**639,049**

Mutual funds are made up of: equity funds and sicavs for € 50.255 million, bond funds for € 242.576 million, balanced funds for € 55.178 million and real estate funds for € 74.200 million.

Section 3 *Financial assets measured at fair value through other comprehensive income - line item 30*

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

	31/12/2019			31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,489,354**	**–**	**14,423**	**4,305,473**	**–**	**13,274**
1.1 Structured securities	369,387	–	10,677	266,311	–	11,979
1.2 Other fixed-yield securities	2,119,967	–	3,746	4,039,162	–	1,295
2. **Variable-yield securities**	**27,716**	**–**	**59,125**	**905**	**–**	**103,375**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,517,070**	**–**	**73,548**	**4,306,378**	**–**	**116,649**

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2019	31/12/2018
1. **Fixed-yield securities**	**2,503,777**	**4,318,747**
a) Central banks	–	–
b) Public administrations	1,745,832	3,764,591
c) Banks	639,046	483,996
d) Other financial companies	67,878	24,469
of which: insurance companies	–	–
e) Non-financial companies	51,021	45,691
2. **Variable-yield securities**	**86,841**	**104,280**
a) Banks	8,973	9,505
b) Other issuers:	77,868	94,775
- other financial companies	65,287	87,194
of which: insurance companies	–	–
- non-financial companies	12,581	7,581
- other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,590,618**	**4,423,027**

3.3 Financial assets valued at fair value through other comprehensive income: gross value and total adjustments

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	2,497,785	–	7,104	–	1,063	49	–	–
Loans	–	–	–	–	–	–	–	–
Total 31/12/2019	**2,497,785**	**–**	**7,104**	**–**	**1,063**	**49**	**–**	**–**
Total 31/12/2018	**4,313,716**	**–**	**7,679**	**–**	**2,578**	**69**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–	–

From 1 January 2018, following the entry into force of IFRS 9, financial assets valued at fair value through other comprehensive income fall within the scope of the new impairment model.

Section 4 *Financial assets measured at amortised cost - line item 40*

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

Type of transaction/Amounts	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**80,548**	**-**	**-**	**-**	**-**	**80,548**	**469,600**	**-**	**-**	**-**	**-**	**469,600**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	80,548	-	-	-	-	-	469,600	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and receivables with banks**	**2,285,360**	**-**	**-**	**335,862**	**-**	**1,956,753**	**1,747,679**	**-**	**-**	**75,407**	**-**	**1,672,622**
1. Loans	1,804,958	-	-	-	-	1,805,034	1,672,620	-	-	-	-	1,672,620
1.1 Current accounts and sight deposits	68,637	-	-	-	-	-	169,883	-	-	-	-	-
1.2. Fixed-term deposits	1,695,939	-	-	-	-	-	1,457,839	-	-	-	-	-
1.3. Other loans:	40,382	-	-	-	-	-	44,898	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	40,382	-	-	-	-	-	44,898	-	-	-	-	-
2. Fixed-yield securities	480,402	-	-	335,862	-	151,719	75,059	-	-	75,407	-	-
2.1 Structured securities	115,632	-	-	110,773	-	6,268	-	-	-	-	-	-
2.2 Other fixed-yield securities	364,770	-	-	225,089	-	145,451	75,059	-	-	75,407	-	-
Total	**2,365,908**	**-**	**-**	**335,862**	**-**	**2,037,301**	**2,217,279**	**-**	**-**	**75,407**	**-**	**2,142,220**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

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

	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
1. **Loans**	**20,367,296**	**1,480,365**	**185,895**	**-**	**-**	**22,418,229**	**19,244,738**	**1,770,403**	**184,078**	**-**	**-**	**22,087,689**
1.1. Current accounts	3,434,959	616,097	68,596	-	-	-	3,794,686	735,283	72,857	-	-	-
1.2. Repo transactions	1,099,082	-	-	-	-	-	1,204,429	-	-	-	-	-
1.3. Mortgage loans	10,218,567	768,788	100,614	-	-	-	9,494,293	884,486	95,848	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	276,946	17,408	2,195	-	-	-	243,200	9,015	873	-	-	-
1.5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	5,337,742	78,072	14,490	-	-	-	4,508,130	141,619	14,500	-	-	-
2. **Fixed-yield securities**	**6,201,803**	**-**	**-**	**6,057,701**	**-**	**193,133**	**6,176,805**	**-**	**-**	**5,756,947**	**-**	**239,532**
2.1. Structured securities	1,402,490	-	-	1,212,684	-	193,133	1,313,239	-	-	1,021,503	-	239,532
2.2. Other fixed-yield securities	4,799,313	-	-	4,845,017	-	-	4,863,566	-	-	4,735,444	-	-
Total	**26,569,099**	**1,480,365**	**185,895**	**6,057,701**	**-**	**22,611,362**	**25,421,543**	**1,770,403**	**184,078**	**5,756,947**	**-**	**22,327,221**

Receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 1,691 million of residential mortgages, which were the subject of covered bond transactions by the Bank.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

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

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

	31/12/2019			31/12/2018		
Type of transaction/Amounts	First and second stage	Third stage	Of which: impaired assets purchased or originated	First and second stage	Third stage	Of which: impaired assets purchased or originated
1. **Fixed-yield securities**	**6,201,803**	**–**	**–**	**6,176,805**	**–**	**–**
a) Public administration	5,951,839	–	–	5,908,263	–	–
b) Other financial companies	215,246	–	–	240,707	–	–
of which: insurance companies	8,286	–	–	6,266	–	–
c) Non-financial companies	34,718	–	–	27,835	–	–
2. **Loans to:**	**20,367,295**	**1,480,365**	**185,895**	**19,244,738**	**1,770,403**	**184,078**
a) Public administration	235,773	3	–	90,338	3	–
b) Other financial companies	4,619,321	22,628	475	4,705,965	15,586	1,135
of which: insurance companies	5,236	–	–	132	–	–
c) Non-financial companies	10,055,021	1,047,844	125,798	9,137,922	1,258,373	120,404
d) Households	5,457,180	409,890	59,622	5,310,513	496,441	62,539
Total	**26,569,098**	**1,480,365**	**185,895**	**25,421,543**	**1,770,403**	**184,078**

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

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	6,685,669	–	–	–	3,463	–	–	–
Loans	19,275,947	–	3,070,705	3,558,404	29,767	64,084	2,078,038	294,727
Total 31/12/2019	**25,961,616**	**–**	**3,070,705**	**3,558,404**	**33,230**	**64,084**	**2,078,038**	**294,727**
Total 31/12/2018	**25,180,695**	**–**	**2,549,075**	**4,015,581**	**41,780**	**49,167**	**2,245,179**	**138,248**
of which: impaired financial assets purchased or originated	–	–	49,169	248,215	–	709	110,780	7,121

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational offices	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. FACTORIT S,p,a.	Milan	Milan	60.500	60.500
3. SINERGIA SECONDA S,r,l.	Milan	Milan	100.000	100.000
4. PIROVANO STELVIO S,p,a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S,r,l.	Conegliano	Conegliano	60.000	60.000
6. BANCA DELLA NUOVA TERRA	Sondrio	Milan	100.000	100.000
7. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S,r,l.	Milan	Milan	100.000	100.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S,r,l.	Sondrio	Sondrio	50.000	50.000
2. RENT2GO S,r,l.	Bolzano	Bolzano	33.333	33.333
C. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S,p,a.	Milan	Milan	19.264	19.264
2. ARCA VITA S,p,a.	Verona	Verona	14.837	14.837
4. UNIONE FIDUCIARIA S,p,a.	Milan	Milan	24.000	24.000
5. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
6. ARCA HOLDING S,p,a.	Milan	Milan	36.825	36.825
7. BORMIO GOLF S,p,a.	Bormio	Bormio	25.237	25.237
8. LAGO DI COMO GAL S,C.r,l.	Canzo	Canzo	28.953	28.953
9. COSSI S,p,a.	Sondrio	Sondrio	18.250	18.250

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

7.5 Equity investments: changes during the year

	31/12/2019	**31/12/2018**
A. **Opening balance**	**562,154**	**506,728**
B. **Additions**	**59,828**	**55,824**
B.1 Purchases	56,730	55,170
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	3,098	654
C. **Decreases**	**1,583**	**398**
C.1 Disposals	1,299	–
C.2 Adjustments	284	398
C.3 Writedowns	–	–
C.4 Other changes	–	–
D. **Closing balance**	**620,399**	**562,154**
E. **Total revaluations**	**–**	**–**
F. **Total adjustments**	**(36,334)**	**(36,050)**

This item passes from € 562.154 million to € 620.399 million.
The increases refer to:

- € 2.599 million to purchase an equity interest in Cossi S.p.a.;
- € coverage of the 2018 loss of Pirovano Stelvio spa of € 0.398 million.

– € payment of € 2.700 million on the call of unpaid capital by RENT2GO S.r.l.
– € 54.131 million to acquire an additional interest in Arca Holding S.p.a.;

The decreases refer to:
– € the write-down of Pirovano Stelvio spa by € 0.284 million.
– € disposal of part of the interest in Cossi S.p.a. for € 1.299 million.

7.6 - 7.7 - 7.8 - 7.9 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

Section 8 *Property, equipment and investment property - line item 80*

8.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2019	31/12/2018
1. **Owned assets**	**185,092**	**186,740**
a) land	53,964	53,349
b) buildings	116,897	118,392
c) furniture	4,556	4,566
d) IT equipment	1,011	792
e) other	8,664	9,641
2. **Rights of use acquired through leases**	**215,146**	**–**
a) land	–	–
b) buildings	214,889	–
c) furniture	–	–
d) IT equipment	210	–
e) other	47	–
Total	**400,238**	**186,740**
of which: obtained by enforcing guarantees received	–	–

The 2018 data is not fully comparative following the entry into force of IFRS 16 from 1 January 2019.

Property, equipment and investment property are measured at cost, except for the leased right-of-use assets that are measured in accordance with IFRS 16. Buildings have a fair value of € 351.231 million, as determined by an internal appraisal. The carrying amount of land and buildings totals € 170.861 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

8.6 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**53,349**	**214,800**	**28,099**	**17,143**	**73,337**	**386,728**
A.1 Total net reductions in value	–	(96,408)	(23,533)	(16,351)	(63,696)	(199,988)
A.2 Opening net amount	53,349	118,392	4,566	792	9,641	186,740
FTA 16 Effect	–	233,390	–	214	7	233,611
Opening net amount after FTA IFRS16	**53,349**	**351,782**	**4,566**	**1,006**	**9,648**	**420,351**
B. **Additions**	**615**	**8,798**	**1,177**	**904**	**4,550**	**16,044**
B.1 Purchases	615	3,891	1,177	819	4,501	11,003
B.2 Capitalised improvement expenditure	–	3,412	–	–	–	3,412
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	1,495	–	85	49	1,629
C. **Decreases**	**–**	**28,792**	**1,187**	**689**	**5,489**	**36,157**
C.1 Disposals	–	–	–	–	3	3
C.2 Depreciation	–	26,492	1,187	689	5,486	33,853
C.3 Impairment charges booked to:	–	2,300	–	–	–	2,300
a) equity	–	–	–	–	–	–
b) income statement	–	2,300	–	–	–	2,300
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**53,964**	**331,788**	**4,556**	**1,221**	**8,709**	**400,238**
D.1 Total net reductions in value	–	122,573	24,720	16,955	67,337	231,585
D.2 Closing gross amount	53,964	454,361	29,276	18,176	76,046	631,823
E. **Valuation at cost**	**53,964**	**331,788**	**4,556**	**1,221**	**8,709**	**400,238**

This item totals € 400.238 million, an increase of € 213.498 million.

The net opening amounts are different to the net closing amounts reported in the prior year following the entry into force on 1 January 2019 of IFRS 16.

The principal changes relate to:

- owned buildings:
  purchases in Rome, Brescia, Segrate, Boario Terme and a plot of land in San Pietro (St. Peter) Berbenno.
- work in Mantua, San Pietro (St. Peter) Berbenno, Verona, Segrate, Brescia, Treviso, Monza, Lodi, Voghera and Mandello del Lario
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

The decreases related to write-downs charged to the income statement in relation to buildings whose carrying amounts exceeded their fair value.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

Property, equipment and investment property	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

8.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 4.138 million, compared with € 2.956 million the previous year.

Section 9 ***Intangible assets - line item 90***

9.1 Intangible assets: breakdown by type

	31/12/2019		31/12/2018	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**14,168**	**–**	**14,762**	**–**
A.2.1 Carried at cost:	14,168	–	14,762	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	14,168	–	14,762	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**14,168**	**–**	**14,762**	**–**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2019	31/12/2018
recorded in 2017	1	4,734
recorded in 2018	5,014	10,028
recorded in 2019	9,153	–
Total	**14,168**	**14,762**

9.2 Intangible assets: change in the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total
		Specified	Unspecified	Specified	Unspecified	31/12/2019
A. **Opening balance**	**–**	**–**	**–**	**153,812**	**–**	**153,812**
A.1 Total net reductions in value	–	–	–	(139,050)	–	(139,050)
A.2 Opening net amount	–	–	–	14,762	–	14,762
B. **Additions**	**–**	**–**	**–**	**13,730**	**–**	**13,730**
B.1 Purchases	–	–	–	13,730	–	13,730
- of which: business combinations	–	–	–	–	–	–
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**14,324**	**–**	**14,324**
C.1 Disposals	–	–	–	–	–	–
- of which: business combinations	–	–	–	–	–	–
C.2 Adjustments	–	–	–	14,324	–	14,324
- Amortisation	–	–	–	14,324	–	14,324
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to discontinued operations due for disposal	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**–**	**–**	**–**	**14,168**	**–**	**14,168**
D.1 Total net reductions in value	–	–	–	(153,374)	–	(153,374)
E. **Closing gross amount**	**–**	**–**	**–**	**167,542**	**–**	**167,542**
F. **Valuation at cost**	**–**	**–**	**–**	**14,168**	**–**	**14,168**

9.3 Other information

Contractual commitments to purchase software user rights amount to € 3.825 million, compared with € 4.872 million in the prior year.

Section 10 *Tax assets and liabilities- asset line item 100 and liability line item 60*

10.1 Deferred tax assets: breakdown

	31/12/2019	31/12/2018
Loan write-downs	326,968	326,466
Provisions for risks and charges	21,509	22,464
Securities and equity investments	2,717	23,829
Administrative expenses, amortisation and depreciation	18,105	15,090
	369,299	**387,849**

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Where applicable, deferred tax assets have been recognised in relation to all liabilities generating temporary differences.

The recognition and retention in the financial statements of DTA depends on an assessment of their recoverability, which is based on the future income forecast in business plans approved by the administrative bodies of the bank.

In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Bank has recognised deferred tax assets (DTA) totalling € 369.299 million. Of these, € 17.748 million relate to equity accounts, € 308.853 million comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, € 42.698 million, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the various degrees of uncertainty.

The ability of future taxable income to absorb the recovery of tax assets was checked over a reference period ending in 2024, with economic projects for 2020-2023 deriving from the latest business plan approved by the Board of Directors. The profitability expected in 2024 was estimated with reference to a prudent projection of the results expected in 2023. The incidence of permanent IRES and IRAP adjustments on pre-tax income and total income was calculated with reference to historical data for 2015-2019, applying normalisation rules to the tax disallowances in prior years in order to determine a pro forma taxable income for those years consistent with the current tax regulations, while also eliminating any non-recurring or extraordinary components from the prior-year taxable amounts.

10.2 Deferred tax liabilities: breakdown

	31/12/2019	31/12/2018
Owned buildings	8,587	9,018
Revaluation of securities and gains	11,926	6,040
Total	**20,513**	**15,058**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IAS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

10.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2019	31/12/2018
1. **Opening balance**	**352,767**	**354,917**
2. **Increases**	**9,089**	**8,682**
2.1 Deferred tax assets arising during the year	8,997	8,682
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	8,997	8,682
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	92	–
3. **Decreases**	**10,305**	**10,832**
3.1 Deferred tax assets eliminated during the year	7,814	10,832
a) reversals	7,814	10,832
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	2,491	–
a) transformation into tax credits as per Law 214/2011	–	–
b) other	2,491	–
4. **Closing balance**	**351,551**	**352,767**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist. Law 160 dated 27 December 2019 «2020 budget law» deferred certain percentage deductions for IRES and IRAP purposes envisaged under various laws. In particular:

The deduction for credit institutions of 12% of the stock of writedowns and losses, originally allowed for the 2019 tax year, is deferred to the 2020 tax year and the three following years.

The deduction of 10% of the reduction in the value of loans and other financial assets due to the first-time application of IFRS 9 is deferred to the 2028 tax year.

10.3 bis Changes in deferred tax assets as per Law 214/2011

	31/12/2019	31/12/2018
1. **Opening balance**	**307,113**	**307,113**
2. **Increases**	**1,740**	**–**
3. **Decreases**	**–**	**–**
3.1 Reversals	–	–
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**308,853**	**307,113**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

The disallowance is attributable to a reclassification in the components of deferred tax assets.

10.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2019	31/12/2018
1. **Opening balance**	**9,019**	**9,226**
2. **Increases**	**145**	**–**
2.1 Deferred tax liabilities arising during the year	145	–
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	145	–
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**432**	**207**
3.1 Deferred tax liabilities eliminated during the year	165	207
a) reversals	165	207
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	267	–
4. **Closing balance**	**8,732**	**9,019**

10.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2019	31/12/2018
1. **Opening balance**	**35,082**	**14,829**
2. **Increases**	**3,533**	**21,938**
2.1 Deferred tax assets arising during the year	3,533	21,938
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	3,533	21,938
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**20,867**	**1,685**
3.1 Deferred tax assets eliminated during the year	20,818	1,685
a) reversals	20,818	1,685
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	49	–
4. **Closing balance**	**17,748**	**35,082**

This amount includes € 2.717 million relating to the unrealized losses recognised in equity on measurement of the fair value of securities through other comprehensive income, as well as € 15.031 million in actuarial losses recognised in relation to long-term employee benefits, consisting of the pension fund and termination indemnities recognised in equity.

10.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2019	31/12/2018
1. **Opening balance**	**6,039**	**17,565**
2. **Increases**	**9,461**	**4,167**
2.1 Deferred tax liabilities arising during the year	9,461	4,167
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	9,461	4,167
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**3,719**	**15,693**
3.1 Deferred tax liabilities eliminated during the year	3,719	15,693
a) reversals	3,719	15,693
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**11,781**	**6,039**

This amount relates to the tax on the unrealised gains recognised in equity on the securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income.

Section 12 Other assets - line item 120

	31/12/2019	31/12/2018
Advances paid to tax authorities	48,014	50,584
Tax credits and related interest	4,306	5,901
Current account cheques drawn on third parties	21,410	25,805
Current account cheques drawn on Group banks	309	1,005
Transactions in customers' securities	5,547	1,637
Inventories	1,099	1,245
Advances to suppliers	971	1,030
Advances to customers awaiting collections	19,474	14,100
Miscellaneous debits in transit	29,278	52,470
Liquidity of pension fund	11,582	3,972
Accrued income not allocated	46,543	42,827
Prepayments not allocated	9,442	5,243
Residual items	73,344	77,924
Total	**271,319**	**283,742**

Accrued income and prepayments mainly relate to commission income and costs that cannot be allocated to specific asset accounts.

Liabilities and equity

Section 1 *Financial liabilities measured at amortised cost - line item 10*

1.1 Financial liabilities measured at amortised cost: breakdown of loans and receivables with banks

	31/12/2019				31/12/2018			
	Book	*Fair Value*			Book	*Fair Value*		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Due to central banks**	**2,713,646**	**–**	**–**	**–**	**4,613,420**	**–**	**–**	**–**
2. **Due to banks**	**742,501**	**–**	**–**	**–**	**866,972**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	323,033	–	–	–	335,314	–	–	–
2.2 Fixed-term deposits	311,869	–	–	–	300,389	–	–	–
2.3 Loans	93,808	–	–	–	211,384	–	–	–
2.3.1 Repurchase agreements	–	–	–	–	100,034	–	–	–
2.3.2 Other	93,808	–	–	–	111,350	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	194	–	–	–	261	–	–	–
2.6 Other payables	13,596	–	–	–	19,624	–	–	–
Total	**3,456,147**	**–**	**–**	**3,456,147**	**5,480,392**	**–**	**–**	**5,480,392**

The prior-year comparative data is not consistent, following the entry into force on 1 January 2019 of IFRS 16.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (TLTRO), for a total of € 2,700 million. The first was arranged in March 2017 for € 3,500 million with maturity in March 2021. The outstanding balance at year end is € 1,100 million following a partial repayment made in December. Again in December, a loan for € 1,600 million was arranged with maturity in December 2022, while a loan for € 1,100 million that was arranged on 23 June 2016, with maturity in June 2020, was repaid in full.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of loans and receivables with customers

	31/12/2019				31/12/2018			
	Book	*Fair Value*			Book	*Fair Value*		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**25,163,136**	**–**	**–**	**–**	**25,025,331**	**–**	**–**	**–**
2. **Fixed-term deposits**	**953,332**	**–**	**–**	**–**	**816,346**	**–**	**–**	**–**
3. **Loans**	**514,100**	**–**	**–**	**–**	**7,085**	**–**	**–**	**–**
3.1 Repurchase agreements	509,383	–	–	–	100	–	–	–
3.2 Other	4,717	–	–	–	6,985	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**215,361**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
6. **Other payables**	**53,743**	**–**	**–**	**–**	**29,093**	**–**	**–**	**–**
Total	**26,899,672**	**–**	**–**	**26,899,672**	**25,877,855**	**–**	**–**	**25,877,855**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of transaction/Amounts	31/12/2019 Book value	31/12/2019 Fair Value Level 1	31/12/2019 Fair Value Level 2	31/12/2019 Fair Value Level 3	31/12/2018 Book value	31/12/2018 Fair Value Level 1	31/12/2018 Fair Value Level 2	31/12/2018 Fair Value Level 3
A. **Securities**								
1. bonds	2,691,043	2,598,332	133,851	–	2,330,053	2,156,641	166,637	–
1.1 structured	833,882	732,310	122,070	–	137,239	–	137,239	–
1.2 other	1,857,161	1,866,022	11,781	–	2,192,814	2,156,641	29,398	–
2. other securities	92,810	–	92,810	–	82,493	–	82,493	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	–	–	–	–	–	–	–	–
Total	**2,783,853**	**2,598,332**	**226,661**	**–**	**2,412,546**	**2,156,641**	**249,130**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

1.4 Detail of subordinated payables/securities

Subordinated securities amount to € 714.130 million and are made up of the loans indicated below:

- bond loan of € 7.438 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3.50%.
- bond loan of € 11.129 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3.50%.
- bond loan of € 11.976 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 3%.
- a bond of € 203.464 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%
- a bond of € 275.431 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%:
- a bond of € 204.692 million from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing – banks and customers

Liability / Amount	FTA Lease Liability	Financial flows	Interest	Other changes	Book value at 31.12.2019
Buildings *	232,522	(22,703)	4,086	1,397	215,302
Car	8	(9)	–	48	47
Other types	214	(88)	1	79	206
Total	**232,744**	**(22,800)**	**4,087**	**1,524**	**215,555**

* Including financial leases under IAS 17

At 31.12.2019, the weighted average of the marginal lessee loan rate applied to the leasing liabilities in the balance sheet is 1.85%

Analysis of leasing liability maturities

Liability / Residual duration	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Buildings	22,573	89,342	87,710	40,357
Cars	13	35	–	–
Other types	90	119	–	–
Total	**22,676**	**89,496**	**87,710**	**40,357**

* Including financial leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amount	31/12/2019					31/12/2018				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	33,676	190	–	–	–	42,532	–	–
1.1 for trading	–	–	33,676	190	–	–	–	42,532	–	–
1.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other –	–	–	–	–	–	–	–	–	–	
Total B	**–**	**–**	**33,676**	**190**	**–**	**–**	**–**	**42,532**	**–**	**–**
Total (A+B)	**–**	**–**	**33,676**	**190**	**–**	**–**	**–**	**42,532**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 6 *Tax Liabilities - line item 60*

The line item amounts to € 33.716 million and relates for € 13.203 million to current taxes and for € 20.513 million to deferred taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 10 of these notes. The bank's tax years up to 2014 have been closed.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. In 2016, the bank applied to retain this right if necessary in the future; no fee has been paid as the conditions for payment did not apply.

Art. 1, para. 24, of the 2017 Budget Law (Law 232/2016) added the concept of VAT groups to Italian legislation and determined that, from 1 January 2018, taxpayers with permanent establishments in Italy may elect to be taxed together as one entity for VAT purposes. The Bank has not made this election. The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a.

Section 8 *Other liabilities - line item 80*

10.1 Other liabilities: breakdown

	31/12/2019	31/12/2018
Amounts at the disposal of third parties	397,043	337,732
Taxes to be paid on behalf of third parties	47,890	48,713
Taxes to be paid	1,955	1,623
Employee salaries and contributions	22,063	13,473
Suppliers	15,756	9,344
Transit accounts for sundry entities	18,790	17,376
Invoices to be received	16,963	13,402
Credits in transit for financial transactions	2,024	3,707
Value date differentials on portfolio transactions	155,232	162,854
Directors' and statutory auditors' emoluments	1,081	1,089
Loans disbursed to customers to be finalised	6,445	5,577
Miscellaneous credit items being settled	14,699	20,290
Accrued expenses not allocated	1,452	1,026
Deferred income not allocated	16,527	14,859
Residual items	59,700	59,661
Total	**777,620**	**710,726**

This line item shows an increase of 9.41%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	31/12/2019	31/12/2018
A. **Opening balance**	**40,638**	**42,848**
B. **Additions**	**10,322**	**7,666**
B.1 Provisions	7,884	7,666
B.2 Other changes	2,438	-
C. **Decreases**	**9,722**	**9,876**
C.1 Payments made	2,230	1,549
C.2 Other changes	7,492	8,327
D. **Closing balance**	**41,238**	**40,638**
Total	**41,238**	**40,638**

9.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 5.510 million, compared with € 5.305 million the previous year, payments to INPS of € 1.822 million, compared with € 1.909 million the previous year and tax on the annual revaluation of € 0.161 million, compared with € 0.171 million the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012. High-quality corporate securities with an AA rating have been taken as a point of reference. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to €35.090 million.

The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2019	31/12/2018
Discount rate	0.33%	1.14%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate has been chosen according to the I-Bo-Corporates Eurozone AA index with a duration of 7-10 years.

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2019	31/12/2018
1. **Provisions for credit risk related to commitments and financial guarantees given**	**19,818**	**21,470**
2. **Provisions on other commitments and other guarantees given**	**22,972**	**23,548**
3. **Pension and similar obligations**	**152,526**	**139,029**
4. **Other provisions for risks and charges**	**41,103**	**36,039**
4.1 legal disputes	23,971	19,602
4.2 personnel expenses	16,423	15,711
4.3 other	709	726
Total	**236,419**	**220,086**

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

It is reasonable to conclude that there are no contingent liabilities.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
A. **Opening balance**	**23,548**	**139,029**	**36,039**	**198,616**
B. **Additions**	**5,932**	**17,345**	**25,481**	**48,758**
B.1 Provisions for the year	5,932	2,214	24,032	32,178
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	8,186	–	8,185
B.4 Other changes	–	6,945	1,449	8,395
C. **Decreases**	**6,508**	**3,848**	**20,417**	**30,773**
C.1 Utilisations during the year	–	3,842	16,494	20,336
C.2 Changes due to variations in the discount rate	–	–	–	–
C.3 Other changes	6,508	6	3,923	10,437
D. **Closing balance**	**22,972**	**152,526**	**41,103**	**216,601**

10.3. Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
Items/technical forms	First stage	Second stage	Third stage	**Total**
1. Commitments to make loans	6,596	1,990	442	9,028
2. Financial guarantees issued	494	53	10,243	10,790
Total	**7,090**	**2,043**	**10,685**	**19,818**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 355 employees and 291 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,261 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	2019	**2018**
at 1 January	139,029	141,469
service cost	2,276	2,471
interest cost	2,074	1,708
actuarial gains/losses	8,186	(2,401)
payments	(3,842)	(3,650)
other provisions	4,803	(568)
At 31 December	**152,526**	**139,029**

10.5.3 Other information on the fair value of plan assets

Details of the assets of the pension plan are summarised in the following table:

	2019	**2018**
Fixed-yield securities	102,311	97,829
Variable-yield securities	3,670	4,481
Mutual funds invested in shares	10,921	15,455
Mutual funds invested in property	17,100	17,292
Balanced mutual funds	6,942	–
Other assets	11,582	3,972
Total	**152,526**	**139,029**

The amount of the fund increases by € 13.497 million, +9.71%.

Payments of benefits amount to € 3.842 million compared with € 3.650 million. The contributions paid by the employees totalled € 0.223 million (€ 0.228 million in the prior year).

10.5.4. Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	2019	2018
Discount rate	0.73%	1.58%
Expected increase in salaries	0.50%	0.50%
Annual rate of inflation	1.50%	1.50%
Underlying rate of pension increases	0.77%*	0.825%*

* average equalisation rate

The average discount rate was determined with reference to the value of the I-Boxx Corporates EUR AA 10+ index at 12 December 2019.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+0.25% increase in the discount rate, liability of € 135.129 million
-0.25% decrease in the discount rate, liability of € 147.048 million
+0.25% increase in the inflation rate, liability of € 143.118 million
-0.25% decrease in the inflation rate, liability of € 137.725 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flows	4.202	4.069	3.930	3.793	3.659

10.6 Provisions for risks and charges - other provisions

Items/Amounts	31/12/2019	31/12/2018
Provision for legal disputes	23,971	19,602
Provision for personnel expenses	16,423	15,711
Other provisions	709	726
Total	**41,103**	**36,039**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for € 3.442 million, and other disputes that have arisen in the ordinary course of business for € 20.529 million. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2019 as the discount rate.

The increase of € 4.369 million reflects the difference between the provisions for the year of € 11.077 million and the release and utilisation of prior-year provisions of € 6.708 million.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.712 million, + 4.53%.

The provision for charitable donations (€ 0.708 million) comprises an allocation from profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2018 profit, while the reduction of € 0.118 million was a consequence of payments made during the year.

Section 12 Equity - line items 110, 130, 140, 150, 160, 170 and 180

12.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2019.

At the year-end, the Bank held treasury shares with a carrying value of € 25.322 million.

12.2 Share capital - Number of shares: changes during the year

Items/Type	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,650,000)	–
A.2 Shares in circulation: opening balance	449,735,777	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- other	–	–
- free of charge:	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**–**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	–	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

12.3 Share capital: other information

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

12.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 990.904 million, + 11.90% on the prior year figure and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 356.292 million, +11.16%, following the allocation of € 35.767 million from 2018 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to €537.470 million (+4.93%), following the allocation of € 25.087 million out of the 2018 profit and dividends on treasury shares of € 0.182 million.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares.

This reserve amounts to € 30 million (used for € 25.322 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Legislative Decree 124/93, € 0.142 million.

Other reserves of € 67.000 million have increased by € 44.316 million compared with the previous year, essentially due to the reclassification from the valuation reserve of unrealised gains recognised on the investment held in Nexi S.p.a. that was sold during the year.

The individual equity accounts are freely useable and distributable, except for the valuation reserves which are not distributable pursuant to art. 6 of Decree 38/2005.

12.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 31/12/2019**	**Total 31/12/2018**
1. **Commitments to make loans**	**11,086,540**	**919,793**	**118,066**	**12,124,400**	**12,556,353**
a) Central banks	–	–	–	–	–
b) Public administrations	406,731	8,329	50	415,110	661,777
c) Banks	111,726	17,492	–	129,218	111,137
d) Other financial companies	2,213,031	2,904	23	2,215,958	2,007,544
e) Non-financial companies	7,428,312	761,978	112,158	8,302,449	8,694,991
f) Households	926,740	129,090	5,835	1,061,665	1,080,904
2. **Financial guarantees issued**	**1,206,586**	**47,945**	**17,861**	**1,272,392**	**1,158,849**
a) Central banks	–	–	–	–	–
b) Public administrations	7,842	–	–	7,842	8,992
c) Banks	631,990	397	–	632,387	623,601
d) Other financial companies	245,363	16	210	245,589	174,361
e) Non-financial companies	269,688	42,221	16,831	328,740	296,454
f) Households	51,703	5,311	820	57,834	55,441

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

2. Other commitments and other guarantees given

	Nominal value 31/12/2019	Nominal value 31/12/2018
Other guarantees given	**2,837,252**	**2,835,823**
of which: impaired	65,653	74,807
a) Central banks	–	–
b) Public administrations	37,338	32,300
c) Banks	93,664	86,560
d) Other financial companies	58,279	58,885
e) Non-financial companies	2,465,079	2,486,849
f) Households	182,892	171,229
Other commitments	**3,263,080**	**3,155,958**
of which: impaired	109,366	90,999
a) Central banks	–	–
b) Public administrations	46,666	52,135
c) Banks	213,369	75,836
d) Other financial companies	49,979	45,811
e) Non-financial companies	2,872,997	2,911,719
f) Households	80,069	70,457

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2019	31/12/2018
1. Financial assets measured at fair value through profit or loss	75,173	14,785
2. Financial assets measured at fair value through other comprehensive income	510,383	1,438,072
3. Financial assets measured at amortised cost	7,325,983	6,129,608
4. Property, equipment and investment property	–	–
of which: property, equipment and investment property held as inventory	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

4. Management and intermediation for third parties

Type of service	31/12/2019
1. **Execution of orders on behalf of customers**	**–**
a) Purchases	–
1. settled	–
2. not settled	–
b) sales	–
1. settled	–
2. not settled	–
2. **Individual portfolio management**	**1,151,483**
3. **Custody and administration of securities**	**29,871,000**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,259,648
1. securities issued by the reporting bank	–
2. other securities	2,259,648
b) third-party securities on deposit (excluding portfolio management): other	17,752,305
1. securities issued by the reporting bank	2,108,890
2. other securities	15,643,415
c) third-party securities on deposit with third parties	18,544,618
d) own securities on deposit with third parties	9,859,047
4. **Other transactions**	**–**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2019 (f = c-d-e)**	**Net amount at 31/12/2018**
1. Derivatives	18,405	–	18,405	5,111	13,000	294	1,735
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2019	**18,405**	**–**	**18,405**	**5,111**	**13,000**	**294**	**–**
Total 31/12/2018	**33,352**	**–**	**33,352**	**12,216**	**19,401**	**–**	**1,735**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2019 (f = c-d-e)**	**Net amount at 31/12/2018**
1. Derivatives	27,289	–	27,289	5,111	22,161	17	1,051
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2019	**27,289**	**–**	**27,289**	**5,111**	**22,161**	**17**	**–**
Total 31/12/2018	**134,849**	**–**	**134,849**	**112,250**	**21,548**	**–**	**1,051**

PART C Information on the income statement

Section 1 Interest - line items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical formse	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2019**	**Total 31/12/2018**
1. **Financial assets measured at fair value through profit or loss:**	**2,182**	**5,731**	**–**	**7,913**	**5,786**
1.1 Financial assets held for trading	599	–	–	599	490
1.2 Financial assets designated at fair value	–	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	1,583	5,731	–	7,314	5,296
2. **Financial assets measured at fair value through other comprehensive income**	**15,127**	**–**	**–**	**15,127**	**24,592**
3. **Financial assets measured at amortised cost**	**30,097**	**406,154**	**–**	**436,251**	**479,324**
3.1 Loans and receivables with banks	3,158	7,521	–	10,679	10,119
3.2 Loans and receivables with customers	26,939	398,633	–	425,572	469,205
4. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**–**	**–**	**–**
6. **Financial liabilities**	**–**	**–**	**–**	**21,006**	**24,425**
Total	**47,406**	**411,885**	**–**	**480,297**	**534,127**
of which: interest and similar income on impaired financial assets	–	41,503	–	41,503	56,616
of which: interest income on finance leases	–	–	–	–	–

1.2 Interest and similar income: other information

Interest income has fallen significantly, -10.08%, from € 534.127 million to € 480.297 million, due to the continued compression of interest rates on both loans to customers and the securities portfolio. The interest earned on financial liabilities mostly relates to the ECB T-LTRO II refinancing operations.

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2019**	**31/12/2018**
Interest and similar income on foreign currency assets	22,308	25,281

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2019**	**Total 31/12/2018**
1. **Financial liabilities measured at amortised cost**	**(20,486)**	**(57,101)**	**–**	**(77,587)**	**(82,676)**
1.1 Due to central banks	(115)	–	–	(115)	(164)
1.2 Due to banks	(3,445)	–	–	(3,445)	(3,859)
1.3 Due to customers	(16,926)	–	–	(16,926)	(28,335)
1.4 Securities issued	–	(57,101)	–	(57,101)	(50,318)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
6. **Financial assets**	**–**	**–**	**–**	**(17,114)**	**(14,136)**
Total	**(20,486)**	**(57,101)**	**–**	**(94,701)**	**(96,813)**
of which: interest expense relating to lease liabilities	(4,087)	–	–	(4,087)	(1)

1.4 Interest and similar expense: other information

Interest expense has decreased from € 96.813 million to € 94.701 million, – 2.18%, a reduction of € 2.112 million. While the cost of short-term funding from customers has decreased, there has been an increase in the cost of funding in the form of bond issues and in the negative interest earned on deposits with the ECB.

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2019**	**31/12/2018**
Interest and similar expense on foreign currency liabilities	(5,948)	(7,645)

Section 2 Commissions - line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2019	31/12/2018
a) **guarantees given**	**25,509**	**27,488**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**87,075**	**80,677**
1. trading in financial instruments	–	–
2. trading in foreign currencies	–	–
3. individual portfolio management	9,922	10,359
4. custody and administration of securities	1,511	1,507
5. custodian bank	4,034	3,351
6. placement of securities	38,166	34,762
7. order receipt and transmission	9,158	9,460
8. consultancy	–	–
8.1 investments	–	–
8.2 corporate finance	–	–
9. distribution of third-party services	24,284	21,238
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	19,981	17,571
9.3 other products	4,303	3,667
d) **collection and payment services**	**91,147**	**85,475**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**–**	**–**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**36,036**	**35,848**
j) **other services**	**57,511**	**61,568**
Total	**297,278**	**291,056**

The 2018 data has been made comparable by classifying the transaction and service commissions on foreign operations (e.g. credit transfers abroad) as income from collection and payment services, rather than as currency trading commissions.

«Other services» mainly consist of loan commissions of € 46.899 million and international/foreign exchange fees of € 5.394 million.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2019	31/12/2018
a) **bank branches**	**72,372**	**66,359**
1. portfolio management	9,922	10,359
2. placement of securities	38,166	34,762
3. third-party products and services	24,284	21,238
b) **door-to-door sales**	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–
c) **other distribution channels**	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	31/12/2019	31/12/2018
a) **guarantees received**	**(613)**	**(659)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services**	**(3,989)**	**(2,063)**
1. trading in financial instruments	(1,784)	–
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(2,205)	(2,063)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,782)**	**(9,814)**
e) **other services**	**(1,257)**	**(2,688)**
Total	**(15,641)**	**(15,224)**

«Other services» mainly include commissions on security and lending transactions.

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2019		31/12/2018	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,648	58	2,128	100
B. Other financial assets mandatorily measured at fair value	–	3,681	–	7,607
C. Financial assets measured at fair value through other comprehensive income	1,106	–	22,038	–
D. Equity investments	6,377	–	13,492	–
Total	**9,131**	**3,739**	**37,658**	**7,707**

Dividends on equity investments amounted to € 4.429 million from Arca Vita spa, € 1.585 million from Arca Holding spa and € 0.363 million from Unione Fiduciaria spa.

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)] **31/12/2019**
1. **Financial assets held for trading**	**4,762**	**42,692**	**(1,954)**	**-**	**45,500**
1.1 Fixed-yield securities	939	8,277	-	-	9,216
1.2 Variable-yield securities	2,703	10,254	(1,708)	-	11,249
1.3 Mutual funds	784	282	(142)	-	924
1.4 Loans	-	-	-	-	-
1.5 Other	336	23,879	(104)	-	24,111
2. **Financial liabilities held for trading**	**-**	**-**	**-**	**-**	**-**
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. **Financial assets and liabilities: exchange differences**	**-**	**-**	**-**	**-**	**(55)**
4. **Derivatives**	**5,634**	**33,360**	**(6,110)**	**(29,026)**	**3,856**
4.1 Financial derivatives:	5,634	33,360	(6,110)	(29,026)	3,856
- On debt securities and interest rates	5,210	16,600	(5,609)	(15,909)	292
- On equities and equity indices	160	14,828	(245)	(11,242)	3,501
- On currency and gold	-	-	-	-	(2)
- Other	264	1,932	(256)	(1,875)	65
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges linked to the fair value option	-	-	-	-	-
Total	**10,396**	**76,052**	**(8,064)**	**(29,026)**	**49,301**

Net trading income amounted to € 49.301 million compared with € 2.430 million. Total trading income was € 42.692 million compared with € 30.224 million; income from other financial activities totalled € 24.111 million and mainly consisted of exchange gains. Net unrealized gains on securities and units in mutual funds amounted to € 2.576 million. The profit from derivatives trading of € 3.856 million was slightly greater than in the comparative period.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

Items/income items	31/12/2019 Profits	31/12/2019 Losses	31/12/2019 Profit (loss)	31/12/2018 Profits	31/12/2018 Losses	31/12/2018 Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	23,056	–	23,056	2,240	(118)	2,122
1.1 Loans and receivables with banks	–	–	–	–	–	–
1.2 Loans and receivables with customers	23,056	–	23,056	2,240	(118)	2,122
2. Financial assets measured at fair value through other comprehensive income	12,897	(610)	12,287	10,704	(7,322)	3,382
2.1 Fixed-yield securities	12,897	(610)	12,287	10,704	(7,322)	3,382
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**35,953**	**(610)**	**35,343**	**12,944**	**(7,440)**	**5,504**
B. **Financial liabilities measured at amortised cost**						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	417	(4)	413	166	(183)	(17)
Total liabilities (B)	**417**	**(4)**	**413**	**166**	**(183)**	**(17)**

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)] **31/12/2019**
1. **Financial assets**	**24,635**	**3,561**	**(16,673)**	**(24)**	**11,499**
1.1 Fixed-yield securities	–	2,075	(1,844)	–	231
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	18,376	1,486	(2,053)	(24)	17,785
1.4 Loans	6,259	–	(12,776)	–	(6,517)
2. **Foreign currency financial assets: exchange differences**	**–**	**–**	**–**	**–**	**640**
Total	**24,635**	**3,561**	**(16,673)**	**(24)**	**12,139**

Gains, losses, proceeds from disposals concern mutual fund units and Italian Government securities. This line item also includes the change in fair value of loans which did not pass the SPPI test.

Section 8 *Net adjustments for credit risk - line item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

Transactions/ Income items	Adjustments (1) First and second stage	Adjustments (1) Third stage Write-off	Adjustments (1) Third stage Other	Write-backs (2) First and second stage	Write-backs (2) Third stage	Total 31/12/2019	Total 31/12/2018
A. **Loans and receivables with banks**	**(956)**	**–**	**–**	**331**	**–**	**(625)**	**599**
- Loans	(467)	–	–	329	–	(138)	607
- Fixed-yield securities	(489)	–	–	2	–	(487)	(8)
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(51,031)**	**(29,481)**	**(398,202)**	**74,239**	**202,868**	**(201,607)**	**(227,365)**
- Loans	(50,603)	(29,481)	(398,202)	73,715	202,868	(201,703)	(227,721)
- Fixed-yield securities	(428)	–	–	524	–	96	356
of which: impaired loans acquired or originated	(197)	–	(31,834)	8,625	4,782	(18,625)	(29,554)
Total	**(51,987)**	**(29,481)**	**(398,202)**	**74,570**	**202,868**	**(202,232)**	**(226,766)**

Key:
A = interest
B = other write-backs

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Adjustments (1) First and second stage Write-off	Adjustments (1) First and second stage Write-off	Adjustments (1) Third stage	Write-backs (2) First and second stage	Write-backs (2) Third stage	Total 31/12/2019	Total 31/12/2018
A. **Debt securities**	**(244)**	**–**	**–**	**1,780**	**–**	**1,536**	**3,970**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Customers	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
Total	**(244)**	**–**	**–**	**1,780**	**–**	**1,536**	**3,970**

Key:
A = interest
B = other write-backs

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

The losses on contractual changes not resulting in derecognition amounted to € 3.288 million, compared with € 2.839 million in the prior year.

This line item principally includes the economic impact of contractual changes that do not qualify for the derecognition of financial assets and, therefore, that result in a change in the related amortised cost to reflect the discounting to present value of the new contractual cash flows using the original internal rate of return.

The total reflects losses from changes of € 5.278 million, net of profits from changes of € 1.990 million.

Section 10 *Administrative expenses - line item 160*

10.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2019	31/12/2018
1) **Employees**	**(193,338)**	**(182,934)**
a) Wages and salaries	(116,937)	(115,137)
b) Social security contributions	(33,343)	(33,058)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,884)	(7,666)
f) Provision for pension and similar obligations:	(11,351)	(3,998)
- defined contribution	–	–
- defined benefits	(11,351)	(3,998)
g) Payments to external supplementary pension funds:	(2,999)	(2,913)
- defined contribution	(2,999)	(2,913)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(20,824)	(20,162)
2) **Other working personnel**	**(101)**	**(87)**
3) **Directors and Statutory Auditors**	**(1,690)**	**(1,740)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**710**	**578**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(101)**	**(261)**
Total	**(194,518)**	**(184,444)**

10.2 Average number of employees by category

	31/12/2019	31/12/2018
1) **Employees**	**2,755**	**2,728**
a) Managers	27	27
b) Officials	567	563
c) Other employees	2,161	2,138
2) **Other personnel**	**3**	**3**
Total	**2,758**	**2,731**

	31/12/2019	31/12/2018
- Actual number of employees	2,770	2,740
- Other personnel	3	3

10.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2019	31/12/2018
Service cost	2,276	2,471
Interest cost	2,074	1,708
Contributions from employees	(222)	(228)
Reductions and payments	7,222	47
Total charge to income statement (A)	11,351	3,998
Portion of yield from assets servicing the fund (B)	8,507	1,576
Total charge (A-B)	2,843	2,422

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of € 8.507 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income«. The actuarial loss of € 8.186 million has not been charged to the income statement; rather, in accordance with IAS 19, it has been deducted from equity as shown in the statement of comprehensive income.

10.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

10.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2019	31/12/2018
Telephone, post and data transmission	(12,212)	(12,425)
Maintenance of property, equipment and investment property	(8,156)	(8,264)
Rent of buildings	(48)	(24,643)
Security	(4,691)	(5,350)
Transportation	(1,668)	(1,750)
Professional fees	(38,279)	(34,239)
Office materials	(1,632)	(1,793)
Electricity, heating and water	(5,249)	(4,511)
Advertising and entertainment	(2,629)	(3,135)
Legal	(14,272)	(13,985)
Insurance	(1,499)	(1,372)
Company searches and information	(7,593)	(7,600)
Indirect taxes and dues	(52,280)	(50,022)
Software and hardware rental and maintenance	(14,920)	(13,329)
Data entry by third parties	(1,929)	(1,711)
Cleaning	(5,526)	(5,349)
Membership fees	(1,866)	(1,739)
Services received from third parties	(8,851)	(6,405)
Outsourced activities	(19,884)	(19,955)
Deferred charges	(991)	(1,269)
Goods and services for employees	(1,141)	(1,187)
Other	(36,801)	(34,406)
Total	**(242,119)**	**(254,439)**

The information presented for the prior year is not comparable following the first-time application from 1 January 2019 of IFRS 16, because the Bank has made the available election not to restate the comparative amounts. The main effect relates to the rent of buildings, the charge for which has fallen to € 0.048 million from € 24.643 million in 2018.

Other expenses include € 29.969 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

The rent of buildings line item now only comprises expenditure under contracts not subject to IFRS 16, as explained more fully in Part A - Accounting policies - other aspects.

Section 11 *Net accruals to provisions for risks and charges - line item 170*

11.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

The net balance of € 1.652 million reflects the provisions made during the year, net of the use or release of provisions recorded in prior years.

11.2 Net provisions for other commitments and other guarantees given: breakdown

The net balance of € 0.576 million reflects the provisions made during the year, net of the use or release of provisions recorded in prior years.

11.3 Net accruals to other provisions for risks and charges: breakdown

This line item amounts to € 4.370 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 11.077 million and the use or release of provisions set aside in previous years of € 6.707 million.

Section 12 *Depreciation and net impairment losses on property, equipment and investment property - line item 180*

12.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. **Property, equipment and investment property**				
1 For business purposes	(33,853)	(2,300)	-	(36,153)
- Owned	(13,151)	(2,300)	-	(15,451)
- Rights of use acquired through leases	(20,702)	-	-	(20,702)
2 Investment property	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leases	-	-	-	-
3 Inventories	-	-	-	-
Total	**(33,853)**	**(2,300)**	**-**	**(36,153)**

The depreciation charged during the year on leased right-of-use assets amounted to € 20.702 million, compared with € 1.019 million in the prior year.

This change reflects the application from 1 January 2019 of IFRS 16.

See Part M - leasing disclosures in these explanatory notes for further information.

Section 13 *Amortisation and net impairment losses on intangible assets - line item 190*

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. **Intangible assets**				
A.1 Owned	(14,324)	-	-	(14,324)
- Internally generated	-	-	-	-
- Other	(14,324)	-	-	(14,324)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(14,324)**	**-**	**-**	**(14,324)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year; accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 14 *Other operating income and expense - line item 200*

This caption amounts to € 65.566 million and comprises other operating income of €69.701 million, net of other operating expenses of € 4.135 million.

14.1 Other operating expenses: breakdown

	31/12/2019	31/12/2018
Out-of-period expense	(3,833)	(6,317)
Other	(302)	(503)
Total	**(4,135)**	**(6,820)**

14.2 Other operating income: breakdown

	31/12/2019	31/12/2018
Recovery of charges on deposits and overdrafts	487	372
Rental income from buildings	1,242	1,080
Recovery of taxes	45,189	43,834
Financial income of pension and similar obligations plan	8,507	1,576
Out-of-period income - other	2,561	1,916
Other	11,715	14,202
Total	**69,701**	**62,980**

The sub-item «other» includes € 3.410 million for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

Rental income from buildings includes € 0.654 million from the sub-lease of right-to-use assets.

Section 15 *Net gains (losses) on equity investments - line item 220*

15.1 Net gains (losses) on equity investments: breakdown

Income item/amount	31/12/2019	31/12/2018
A. **Income**	**–**	**801**
1. Revaluations	–	–
2. Gains on disposal	–	801
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(284)**	**(398)**
1. Write-downs	–	–
2. Impairment adjustments	(284)	(398)
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(284)**	**403**

The write-down of € 0.284 million relates to Pirovano Stelvio spa.

Section 18 *Net gains on sales of investments - line item 250*

18.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2019	31/12/2018
A. **Buildings**	**-**	**-**
- Gains on disposal	-	-
- Losses on disposal	-	-
B. **Other assets**	**5**	**21**
- Gains on disposal	5	21
- Losses on disposal	-	-
Profit (loss)	**5**	**21**

Section 19 *Income taxes - line item 270*

19.1 Income taxes: breakdown

Income items/Amounts		31/12/2019	31/12/2018
1.	Current taxes (-)	(47,673)	(23,200)
2.	Change in prior period income taxes (+/-)	(2,327)	-
3.	Reduction in current taxes (+)	-	-
3.bis	Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4.	Change in deferred tax assets (+/-)	1,183	(2,150)
5.	Change in deferred tax liabilities (+/-)	165	207
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(48,652)	(25,143)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 32.58%.

19.2 Reconciliation between the theoretical and current tax burden

	Income taxes
Profit before tax	**149,347**
IRES (CORPORATE INCOME TAXES)	
Theoretical taxation	**41,070**
Dividends (-)	(1,955)
Maxi depreciation	(435)
ACE incentives	(2,816)
Administrative expenses (partially deductible)	653
Other changes (+/-)	2,306
Total IRES	**38,823**
IRAP (REGIONAL BUSINESS TAX)	
Theoretical taxation	**8,319**
Dividends	(254)
Personnel expenses	787
Administrative expenses	1,555
Depreciation and amortisation	281
Other operating income/expense	(817)
Other items	(40)
Total IRAP	**9,829**
Total INCOME TAXES	**48,652**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the above table.

Section 22 Earnings per share

22.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2019	**31/12/2018**
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

22.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2019	**31/12/2018**
Basic EPS - €	0.222	0.184
Diluted EPS - €	0.222	0.184

PART D *Comprehensive income*

Statement of comprehensive income

Items	31/12/2019	31/12/2018
10. **Profit for the year**	**100,695**	**83,623**
Other items of comprehensive income that will not be reclassified to profit or loss	(24,719)	13,484
20. **Variable-yield securities measured at fair value through other comprehensive income:**	**(19,163)**	**11,407**
a) change in fair value	21,580	11,407
b) transfer to other components of equity	(40,743)	-
30. **Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
40. **Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
a) change in fair value (hedged instrument)	-	-
b) variazione di fair value (hedging instrument)	-	-
50. **Property, equipment and investment property**	**-**	**-**
60. **Intangible assets**	**-**	**-**
70. **Defined-benefit plans**	**(9,500)**	**4,025**
80. **Non-current assets and disposal groups held for sale**	**-**	**-**
90. **Share of valuation reserves of equity investments valued at net equity**	**-**	**-**
100. **Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**3,944**	**(1,948)**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	53,048	(76,078)
110. **Hedges of foreign investments:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
120. **Exchange differences:**	**-**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
130. **Cash-flow hedges:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. **Hedging instruments (non-designated elements):**	**-**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
150. **Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**80,018**	**(111,223)**
a) changes in fair value	69,901	(85,426)
b) transfer to income statement	10,117	(24,817)
- adjustments for credit risk	(1,536)	(3,969)
- gains/losses on disposals	11,653	(20,848)
c) other changes	-	(980)
160. **Non-current assets and disposal groups held for sale:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
170. **Share of valuation reserves of equity investments valued at net equity:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
- adjustments for impairment	-	-
- gains/losses on disposals	-	-
c) other changes	-	-
180. **Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**(26,970)**	**35,145**
190. **Total other income items**	**28,328**	**(62,596)**
200. **Comprehensive income (Item 10+190)**	**129,023**	**21,027**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Risk Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management - having regard for the duties and responsibilities of each person - can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them.

The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparty that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *Board of Directors*. The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;
  - establishes criteria for the recognition, management and assessment of risks;
  - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
  - ensures that the structure of the control functions is defined in a way that is consistent with the Bank's strategies, that they have an appropriate level of decision-making autonomy and that they have adequate resources in terms of both quality and quantity;
  - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
- Managing Director. The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to make loans granted under the Bank's regulations.
- *General Management*. General Management implements the strategies and policies established by the Board of Directors and, in particular:
  - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
  - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
  - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.

In addition, General Management adopts resolutions to the extent of the autonomy granted.

- *Branches*. The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
- *Coordination functions*. They give the branches fundamental support in handling more complex loan positions and/or those that are looking critical. They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers
- *Loans Department*. The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment. The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.
- *Corporate Finance Department*. The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.

- *Problem Loans Management Department*. It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. It monitors in particular critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the bank's credit. It also supports the network in managing positions subject to restructuring and bankruptcy proceedings, searching for negotiated solutions to business crises.
- *Legal and Claims Department.* The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to non-performing loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Problem Loans Management Department.
- *Risk Control Department.* The Risk Control Department defines, develops and maintains the models underlying the rating system through the Credit Models Development Office; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them. The department also analyses, using various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions. From an organisational point of view, a thorough review of the structure was carried out during the year, in order to make credit risk control and monitoring of the loan portfolio quality even more effective; in particular, the current structure involves the following organisational units:
  - *Integrated Risk Office:* it has control over the definition and implementation of the RAF, ICAAP, stress tests and the Group's Recovery Plan;
  - *Credit Risk Organisation Office:* with the constant aim to increase efficiency and adoption of best market practices, it organises and monitors the overall activities carried out by the offices responsible for credit risk monitoring and management, with particular attention to the evolution of the internal rating system;
  - *Credit Models Development Office:* it designs, develops and maintains models and metrics adopted for the measurement of credit risk for both regulatory and management purposes;
  - *Lending Policies Office:* it oversees the planning of lending policies in compliance with the RAF and monitors their timely application;
  - *Asset Quality Office:* it monitors the overall quality of the credit portfolio through aggregate analysis and, where necessary, looking more closely at individual balances;
  - *Large exposures office and rating desk:* it evaluates the more significant credit exposures in terms of risk, preparing the related analyses and performing verifications of the exceptions to the rating assessments expressed by the operating structures.

  This Department also includes the Validation Office, which is devoted to verifying the internal risk management systems and assessment of corporate activities used for both regulatory and management purposes.
- *Internal Audit Department.* The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practising professionals), Small Business (non-financial partnerships and companies with sales unknown or less than € 1.5 million and total credit lines at Group level of less than € 1 million), SMEs (non-financial partnerships and companies with sales between € 1.5 million and € 100 million, or sales unknown or less than € 1.5 million and total credit lines at Group level of € 1 million or more), Corporate non-profit institutions (non-profit entities and associations with sales of € 1.5 million or more or, if less or unknown, with total credit lines of € 1 million or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of € 100 million), Public Enterprises and non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Together, at the end of December 2019, the sub-portfolios subject to these rating systems account for 76.73% of lending to customers (91.06% in terms of number of counterparties).

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: the rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when estimating and calibrating includes: non-performing, unlikely to pay and past due loans, including those significantly overdrawn for more than 90 consecutive days. Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used.

More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterparty/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Risk analyses are carried out periodically on the loan portfolio. These address various dimensions, including the trends in the distribution of counterparties by rating class and by economic and productive sector.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

With regard to credit risk and the extension of the way it is measured to the various operational areas, the Bank has established objectives for the control of expected loss (cost of credit risk) that branches have applied for some time in the preparation of their annual budgets. The spread and the margin applied on loans are adjusted by a correction factor to take account of the credit risk based on PD and LGD parameters deriving from internal models. The objective is to ensure closer correlation between the profitability performance assigned to each productive unit and its actual ability to accept and manage risk, thus indicating growth paths for lending that are as effective as possible in risk-return terms. The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

Exceptions to the internal rating system are applied to certain operational segments.

An override is proposed by the branch or, for certain segments (Large Enterprises, Public Enterprises and Corporate Non-Profit Institutions) by the Credit Assessment Office, and requires central approval from the Large Exposures office and rating desk.

The use of indicators of risk-adjusted value creation (EVA) meets the need to assess more selectively certain loan positions and to control more closely the quality of loans granted. Using a specific application already integrated within the electronic credit line system, it is possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer’s rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability. In order to orient the price of loans in a more efficient and fair manner, according to EVA logics, on the request for new finance or a review of relationships, the pricing procedure in use has also been revised and refined during the year.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available.

In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed.

The bank also has a process of identification, resolution and monitoring of forborne exposures (i.e. credit exposures for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forborne as an attribute is transversal to all loans, whatever their administrative status.

In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions.

The Problem Loans Management Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «impaired», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risk Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

In accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the loan investigation office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework).

In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Methods for measuring expected losses

The purpose of this section is to describe the methodological framework implemented by Banca Popolare di Sondrio, in accordance with the requirements of the new IFRS 9 that came into force on 1 January 2018, to calculate the *Expected Credit Loss* (ECL) of the loan portfolio.

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Bank defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

These methodologies are considered optimal with regard to the rationale underlying the standard (including the avoidance of undue cost and effort), the current and prospective taxonomy and complexity of the portfolio, the materiality of the impact of specific modelling decisions and the following drivers of analysis considered important:

- Disclosure and consistency, with particular reference to the ease with which the approach can be explained to the various types of stakeholder, and consistency with the methodological framework currently used for stress testing.
- Conformity with current regulations, with particular reference to integration of the forward-looking element and the move from a «Through-the-Cycle» to a «Point-in-Time» approach.
- Ease of maintenance, particularly in relation to the frequency with which the model is recalibrated under the point-in-time approach.
- Representativeness of the composition of the portfolio, considering the level of specialisation with respect to the clusters within the portfolio and the essential duration of the portfolio.
- Adequacy with respect to the depth and frequency of the available data, specifically considering aspects of data availability and methodological requirements, as well as the stability of the estimates and the number of parameters to be estimated.

Scope of application

The above methodologies are used to calculate impairment write-downs for the loan portfolio of the Parent Company of the Banca Popolare di Sondrio Group (the Bank) in accordance with IFRS 9. More precisely, these methodologies are applied to the portfolios classified in accordance with the *Held To Collect business model* (portfolios measured at amortised cost if they pass the «Solely Payment of Principal and Interest» (SPPI) test and are reported in the «Due from customers» and «Loans and receivables with banks» line items) and the *Held To Collect and Sell business model* (portfolios measured at fair value through other comprehensive income (FVOCI), in order to determine the change in fair value that is attributable to credit risk).

In addition to the above, applicable to the «*on–balance sheet*» component, IFRS 9 also applies to the financial instruments associated with «*off–balance sheet*» categories, such as revocable margins, non-revocable margins and financial guarantees.

Credit risk parameters under IFRS 9

The process of modelling credit risk parameters started with the internal models developed for regulatory purposes. Based on these, the Bank defined a set of refined methodologies and adjustments to model in a specific and appropriate manner the point-in-time and forward-looking components, in order to ensure maximum consistency between the overall methodology adopted and the rationale underlying the standard. The probability of default (PD) was modelled on adaptation of the default rates, applying a variable scale approach. As discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the set of A-IRB models now at the validation stage became the starting point for the methodological framework used to model the probability of default (PD).

On this basis, the Bank defined a series of specific methodological approaches, essentially covering the aspects described below, in order to develop a precise model that embodies as closely as possible the rationale and requirements of the new standard:

- Transition matrices, used to model the PD dynamics needed to calculate the IFRS 9-compliant ECLs over essentially long-term time horizons;
- Econometric models, defined for various customer segments and sectors of business activity, that make it possible to differentiate the above forward-looking dynamics by examining different macroeconomic scenarios over a long time horizon;
- Convergence dynamics towards long-term equilibrium that make it possible to extend the above-mentioned forward-looking and scenario-dependent dynamics over longer time horizons than those covered by the econometric models;
- Methodologies for estimating the long-term PD by adopting a suitable methodological framework;
- Methodologies for defining appropriate PDs for segments not covered by ratings, including the corporate and retail segments for which no models are available, as well as the exposures to those types of counterparty (e.g. banks, public administrations) that do not fall within the scope of the A-IRB models. The approach in these cases uses the ECAI transition matrices and the internal default rates.

Again as discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the starting point for modelling the LGD under IFRS 9 was the set of A-IRB methodologies developed by the Bank that are now at the validation stage.

In order to develop a model for the LGD component under IFRS 9 that embodies as closely as possible the spirit and requirements of the new standard, the Bank sought to make methodological choices and/or adopt definitions that differed from those developed in the A-IRB context, as well as to develop IFRS 9-specific methodologies that model changes in the metric more precisely over long-term time horizons under different macroeconomic conditions.

More precisely, the LGD parameter used under IFRS 9 differs from those considered by the internal models in the following ways:

- Definition of LGD by state of impairment (LGS). Although the starting point for the definition of LGD by state of impairment (LGS) uses the same concept as that used in the A-IRB context, in order to maximise internal consistency among the models adopted, the Bank defined a different set of underlying methodologies for the calculation of that metric, in order to ensure greater consistency with the rationale underlying the new standard.
- Development of econometric models for LGD by state of impairment. The Bank has developed a specific methodological module that renders LGD by state of impairment (LGS) dependent on the macroeconomic scenario selected.
- Definition of the danger rate parameter. The Bank has defined an alternative version of the danger rate parameter, which is estimated over a shorter time horizon than that

considered in the A-IRB context, achieving greater alignment with the point-in-time calibration logic touched on in the standard.

- Parameters for segments other than Corporate and Retail not covered by the A-IRB model. The Bank has defined specific methodologies for estimating the LGD for those portfolio segments that, while falling within the scope of the IFRS 9 simulation, are not currently covered by the internal LGD models.

The Exposure At Default (EAD) component is modelled using different methodologies, depending on the segment of the counterparties concerned; in particular, the EAD model developed by the Bank in the A-IRB context is used for counterparties in the Retail segment, while a standard CCF value is used for those in the Corporate segment, given the (temporary) absence of internal models, as well as for the other counterparties not covered by an internal model.

Stage allocation

The standard requires the classification of all financial instruments subject to impairment into three different stages, considering the level of impairment of the exposure at the analysis date with respect to an initial recognition date:

- Stage 1 positions: performing positions for which no significant increase in credit risk is found at the analysis date with respect to that at the date of initial recognition;
- Stage 2 positions: performing positions for which a significant increase in credit risk is found with respect to that at the date of initial recognition;
- Stage 3 positions: positions in default.

The principal innovation relates to the need, for financial instruments classified in stage 2, to calculate the expected loss over their entire residual lives, based on the increase in default risk with respect to that found on initial recognition. The standard requires the change in credit risk to be assessed with reference to both qualitative and quantitative information.

For this purpose, the Bank has developed a series of methodologies for classifying the exposures to be analysed into the above stages that use both qualitative and quantitative information and approaches, as well as both absolute and relative staging criteria.

The following absolute criteria are considered for staging purposes:

- Low Credit Risk Exemption. Consistent with the rationale underlying the standard, which accepts the presumption that credit risk has not increased significantly since initial recognition if the risk level of the exposure is deemed to be «low», the Bank has identified the following types of transaction for which, given their nature, it is appropriate to make this election by classifying them automatically in stage 1: transactions with the Bank of Italy and central banks, repurchase agreements expiring within one month and sovereign securities whose issuers have an investment grade rating.
- Past due by 30 days. The standard makes explicit reference to the case in which a relationship is late in meeting its contractual obligations, as a possible indicator for classification in stage 2, given the deterioration of the relationship.
- State of forbearance. Forborne exposures comprise loans that have benefited from special concessions, marked by changes in the contractual conditions or refinancing arrangements, following a substantial change in economic condition that is considered somewhat compromised. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of performing exposures.
- Purchased or originated credit-impaired (POCI) loans. These comprise all those positions defined as impaired loans at the time of initial recognition, which are subject to specific regulations regarding measurement of the credit risk. The methodology defined by the

Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of performing exposures.

On the other hand, with regard to the use of relative staging criteria, the Bank has selected a metric based on the lifetime PD that, although requiring more effort to implement, allows the achievement of greater consistency with the rationale and requirements of the standard (in particular, the use of relative measurements for the assessment and adoption of a point-in-time logic). In particular, assessment of the change in creditworthiness of a generic position by comparing a suitable metric based on the lifetime PD - i.e. relating to the residual life of the relationship - determined at the reporting date, with the lifetime forward PD - i.e. relating to the same point in time - estimated with reference to the curve at the origination date of the position.

The above methodology therefore assumes the availability of a series of information and suitable methodologies for constructing lifetime cumulative PD curves, at both the reporting date and the origination date, for all counterparties included in the loan portfolio subject to the impairment calculations.

The lifetime PD curves to be used at the reporting date are calculated by applying non-homogeneous Markovian methodologies to transition matrices estimated using a frequency approach for different portfolio segments/clusters and subsequently rendered point in time and scenario dependent by applying econometric models based on a Merton-type methodological framework commonly found in the literature.

The lifetime PD curves at the origination date are, on the other hand, obtained using a simple Markovian methodology applied to transition matrices estimated over a long-term time horizon.

The lifetime PD curves at the reporting and origination dates for positions associated with counterparties for which no internal rating is available, or that belong to segments not covered by internal models, are constructed using transition matrices estimated by external rating agencies (ECAI) and appropriately processed for banking counterparties for which an ECAI rating is available, applying an homogeneous Markovian methodology to obtain lifetime curves, and/or using internal new default rates analysed by portfolio cluster and macroclasses of creditworthiness in all other situations. More precisely, the internal new default rates are used to reconstruct a simplified transition dynamic that, together with the econometric models and the long-term convergence mechanisms described earlier, is used to obtain lifetime cumulated PD curves.

At the same time as selecting the stage allocation approach to use and specifying an appropriate metric, the Bank also devised and applied a series of analytical methodologies in order to first identify appropriate levels of detail for segmenting the loan portfolio and, subsequently, to calibrate the corresponding threshold levels for assigning a given position to either Stage 1 or Stage 2.

In general terms, the definition of different levels of detail for segmenting the loan portfolio and the calibration of the corresponding threshold levels involved the use of purely statistical or, more generally, data-driven techniques for the analyses of impact and sensitivity (using certain metrics of greatest interest to analyse the impact of applying a given set of thresholds defined for a specific level of detail and/or a specific change in them) and for benchmarking purposes (calculation and comparison of a set of metrics of interest deriving from the application of a given set of thresholds defined for a specific level of detail with the same quantities that would be obtained using alternative staging methodologies).

Based on the information obtained following the initial analyses carried out using the above methodologies, the Bank decided to calculate the writedowns using different thresholds for the following levels of detail:

– the portfolio covered by an internal model is segmented by operational *macro-segment and rating class*. In order to consider appropriately the flattening dynamics of the lifetime PD curve and their effect on the values of the metric, the above criteria were used to identify the segments in which that phenomenon is significant, for which the threshold levels were further differentiated with reference to the residual lives of the positions segmented into appropriate buckets.

– for portfolios not covered by an internal model, a distinction is made between banking counterparties, whose PD-based metric is estimated using lifetime PD curves generated by the ECAI transition matrices, applying the methodology described earlier, and other types of customer, whose PD-based metric is calculated with reference to the lifetime PD curves obtained via appropriate processing, in the manner described earlier, of the corresponding new default rates estimated internally, which are further segmented into appropriate macro-segments.

The threshold values for the various portfolio segments indicated above are, in the most general case, calibrated at the level of macro-segment, rating class and residual life of the position, taking as the threshold value that corresponding to the assigned percentile, taken from the metric, of the empirical observed distribution of the underlying estimation pool. This value is determined with reference to the percentage of positions in the segment analysed that, considering their trends over the observable period, have transitioned to lower classes of creditworthiness under a notching-down approach with variable scale; at this level it is possible to apply adjustments and corrections due to roundings, the application of prudential add-ons or consideration of the impact of the threshold values concerned on the final writedown calculations.

The recent adoption of the new standard and the resulting significant discontinuities make it necessary to carry out periodic holistic assessments, not only of the threshold levels of the PD-based metric used and the related segmentation defined, but also of the quality and stability of the methodological approach adopted.

In order to respond fully to these needs, the Bank has defined and formally approved a structured and thorough process for assessing the entire framework for the stage allocation (and impairment adjustment) of its loan portfolio. The above process will carry out two types of analysis (trend analysis and model monitoring analysis) with a predetermined frequency, thus satisfying structurally different needs that are nevertheless complementary.

Modelling of the scenario-dependent component

One of the key points of the new standard relates to the use of forecasts that contain forward-looking and, in particular, scenario-dependent elements.

In order to guarantee maximum alignment with these requirements, the Bank has explicitly and specifically included that component in many aspects of the methodological framework; more precisely, modelling of the scenario-dependent component by the Bank involved the selection and definition of macroeconomic scenarios, their parameterisation in a suitable manner and the interpretation of their dynamics in order to identify scenario-dependent risk parameters and methods for calculating the ECL.

The Bank decided to adopt three different macro-scenarios that, as required by the standard, allow sufficiently detailed and precise forecasts to be made, having due regard for the size, structure and complexity of the Bank and its business:

- A baseline scenario, based on «central» trends in the macroeconomic variables with respect to the value observed when making the initial forecast that, generally, should therefore represent the outcome considered most likely;
- A moderately adverse scenario that, while undeniably representing an unfavourable but plausible development of the macroeconomic situation, should not normally result in conditions that are particularly stressed;
- A moderately favourable scenario that, conversely, should represent a positive but completely plausible development of the macroeconomic situation, based on the conditions observed at the time of the forecast.

The Bank has engaged an external supplier, with recognised expertise in the forecasting of scenarios and a consolidated reputation in Italy, to perform the related activities. This provider has already assisted the Bank for many years, supplying forecasts for macroeconomic, financial and banking variables, based on predictions or simulations of future events, that are used for strategic purposes and for the healthy and prudent management of the business.

Under standard market conditions, these macroeconomic forecasts are updated quarterly by the external supplier; however, they may be updated on an ad hoc basis if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation.

The parameterisation of the above scenarios results in the supply, for each scenario considered, of hundreds of forecast variables of various types.

These include quarterly forecasts covering strictly macroeconomic factors - such as Italian and EU GDP, the inflation rate, the unemployment rate, the level of Italian public debt - as well as strictly financial variables - mainly stock indices, money market and swap rates, the yields on government securities, the yield spreads on securities with different credit ratings, the prices of such commodities as gold and oil, the exchange rates between the Euro and other major currencies - over a three-year time horizon.

In order to be considered properly within the multi-period ECL, the dynamics of the macroeconomic scenarios described above must be translated appropriately into scenario-dependent credit risk parameters, specifically PD and LGS, using the econometric models also mentioned above. The statistical relations on which these are based are differentiated at the level, respectively, of portfolio cluster and type of guarantee, making use of meaningful variables that statistical tests and economic intuition have identified as significant, plausible and representative.

The dynamics generated initially cover a three-year time horizon that, in order to cover the residual contractual lives of all positions in the portfolio, is then extended on a lifetime basis by developing geometric convergence dynamics driven by suitably calibrated parameters, considering the nature and severity of the scenarios modelled.

Notably, given the intrinsic risk associated with these forecasts and the potential bias that would derive from the blind adoption of estimates provided by a single research institution, however reliable and authoritative, the Bank has established a managerial «Scenarios Committee» that meets to:

- examine the results of the analyses carried out internally, in order to confirm - applying economic, financial, statistical and/or data-driven logic - the plausibility, quality and consistency of the scenarios and related «weighting factors», having regard for the benchmarking exercises carried out with alternative, reputable and independent providers;
- arrange for the communication and critical discussion of the forecasts within the organisation, in order to determine how well the wealth of information received fits with the sentiment of participants regarding the macroeconomic situation and the specific business conditions faced by the Bank, as well as to consider whether or not to include these expert-based elements in the macroeconomic data used in the calculations.

Calculation of the multi-period, scenario-dependent ECL

The impairment for each position under a given scenario is calculated as the sum, discounted to present value at the measurement date, of the ECL (determined by multiplying together the scenario-dependent PD and LGD and the EAD) associated with each contractual cash flow generated by the instrument over a time horizon that depends on the staging (i.e. positions classified in stage 1 are written down over a maximum of one year, while those classified in stage 2 are written down considering the entire residual duration of the contract).

Subsequently, these estimates are aggregated appropriately to obtain the best estimate of a final value that gives due weight to the likelihood of the various macroeconomic scenarios considered. The aggregation mechanism used by the Bank in fact determines the weighted average of the various ECL, applying weighting factors linked to the probability of occurrence of each scenario.

The Bank basically uses a «hybrid» methodology to estimate these factors, balancing the results of a purely macroeconomic and/or data-driven approach with considerations of a more qualitative and expert-based nature.

This approach involves obtaining the estimated probability of occurrence of the scenarios presented by the provider, analysing their plausibility and using them as a starting point for formal discussion within the Bank (Scenarios Committee). This process, which also involves other persons drawn from different business functions, considers the results of the internal analyses carried out, reviews them critically and determines, if deemed appropriate, any adjustments or corrections to be made on the basis of judgemental and expert-based input.

IFRS 9 methodology for other portfolios

The writedowns required in accordance with the logic indicated in the new IFRS 9 are also calculated in relation to the securities portfolio, although it is less material than the loans portfolio discussed above.

In this case, the scope of the calculation includes the securities classified under the new C&M model as Held to Collect (which corresponds to the IAS «held to maturity» classification) and as Held to Collect & Sell (which corresponds to the IAS «available for sale» classification). The ECL must be calculated on the exposures classified in one of the above categories that have passed the solely payment of principal and interest (SSPI) test. In particular, the scope of application under the new C&M model comprises the securities measured at: amortised cost and at FVOCI.

The calculation framework is developed using methodological logic consistent with that described above, with a number of differences (e.g. estimation of the risk parameters, econometric models) made necessary by the different type and risk profile of the positions included in the portfolio.

Lastly, with regard to subsidiaries, the models developed to calculate writedowns applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

ECL sensitivity analyses

The macroeconomic scenarios reflect changes in dozens of macro-factors forecast over long-term time horizons, considering standard[1] market conditions that are updated quarterly. These forecasts are subjected to specific analysis, discussion and approval by management committees appointed for this purpose.

In general, the scenarios examined address different degrees of adverse/favourable conditions affecting the overall macroeconomic situation. The estimation of write-downs considers a baseline scenario that applies «central» trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two «alternative» scenarios are considered - «adverse» and «favourable» – that address outcomes deemed somewhat plausible and not extreme in the macroeconomic context identified.

The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.

In this regard, the write-downs recorded at the end of 2019 attached weightings of 55% to the baseline scenario, 25% to the «adverse» scenario and 20% to the «favourable» scenario.

The use of forward-looking information in the impairment model was discussed in more detail in earlier paragraphs.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in the methodological framework, the Bank has carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities[2]. The results of these analyses are presented in the following tables. In particular, Table 1 analyses by operational macro-segment and stage the different levels of write-down corresponding to the three scenarios identified – baseline, favourable and adverse – and the weighted outcome determined after applying the probabilities indicated above. Table 2 indicates the write-downs that would have been recorded had four different sets of probabilities[3] been applied with respect to those chosen.

1. These estimates may however be updated on an ad hoc basis if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation.
2. For example see ESMA32 -63 – 791 dated 22 October 2019.
3. The weighting factors for the baseline, adverse and favourable scenarios are respectively 50%-15%-35% (alternative 1), 40%-30%-30% (alternative 2), 50%40%-10% (alternative 3) and 40%-50%-10% (alternative 4).

Table 1 - Write-downs [in €/million] at 31 December 2019 of the performing loans of the Parent Company associated with different macroeconomic scenarios

Operational macro-segment	Stage	Favourable	Baseline	Adverse	Weighted
Corporate & Large Corporate	Stage 01	13,01	13,36	13,73	13,38
	Stage 02	27,07	28,09	29,00	28,11
	Total	**40,08**	**41,45**	**42,73**	**41,49**
SMALL BUSINESSES	Stage 01	5,97	6,09	6,24	6,10
	Stage 02	12,93	13,43	13,86	13,44
	Total	**18,90**	**19,52**	**20,10**	**19,54**
Small Economic Operators	Stage 01	2,52	2,61	2,69	2,61
	Stage 02	9,91	10,44	10,77	10,41
	Total	**12,43**	**13,05**	**13,46**	**13,02**
Individuals	Stage 01	3,03	3,12	3,20	3,12
	Stage 02	12,79	13,51	14,04	13,50
	Total	**15,82**	**16,63**	**17,24**	**16,62**
Other	Stage 01	10,21	10,86	11,41	10,87
	Stage 02	0,65	0,76	0,82	0,75
	Total	**10,86**	**11,62**	**12,23**	**11,62**
Total	Stage 01	34,74	36,04	37,27	36,09
	Stage 02	63,36	66,22	68,48	66,21
	Total	**98,10**	**102,26**	**105,75**	**102,30**

Table 2 - Write-downs [in €/million] at 31 December 2019 of the performing loans of the Parent Company associated with different macroeconomic scenarios

Macro-segment	Stage	Weighted alt. 1	Weighted alt. 2	Weighted alt. 3	Weighted alt. 4
Corporate & Large Corporate	Stage 01	13,29	13,37	13,47	13,51
	Stage 02	27,87	28,06	28,35	28,44
	Total	**41,16**	**41,43**	**41,82**	**41,95**
SMALL BUSINESSES	Stage 01	6,07	6,10	6,14	6,15
	Stage 02	13,32	13,41	13,55	13,59
	Total	**19,39**	**19,51**	**19,69**	**19,74**
Small Economic Operators	Stage 01	2,59	2,61	2,63	2,64
	Stage 02	10,30	10,38	10,52	10,55
	Total	**12,89**	**12,99**	**13,15**	**13,19**
Individuals	Stage 01	3,10	3,12	3,14	3,15
	Stage 02	13,34	13,45	13,65	13,70
	Total	**16,44**	**16,57**	**16,79**	**16,85**
Other	Stage 01	10,71	10,83	11,02	11,07
	Stage 02	0,73	0,74	0,77	0,78
	Total	**11,44**	**11,57**	**11,79**	**11,85**
Total	Stage 01	35,77	36,02	36,40	36,53
	Stage 02	65,56	66,04	66,84	67,07
	Total	**101,33**	**102,06**	**103,24**	**103,59**

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. impaired loans. More specifically, the expected losses on impaired loans at 31 December 2019 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship, but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

With regard to mortgage guarantees, the bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, residential and commercial buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

3 Impaired loans

3.1 Strategies and operational policies

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» (Non-Performing Exposures), if there are serious signs of tension and, depending on the nature and gravity of the anomaly, in compliance with the

EU Implementation Regulation 2015/227 which approved the implementing Technical Standard (ITS), issued by the European Banking Authority (EBA), when they meet one of the following criteria:

- they are due from counterparties that are not deemed able to meet their loan obligations in full without the enforced collection of guarantees, regardless of whether or not any amounts are overdue, or the number of days that payments are past due;
- the debtor has large exposures (as defined with reference to the thresholds of significance established in the Supervisory regulations) that are past due by more than 90 days.

Depending on the nature and gravity of the anomaly, they are split into the following sub-categories:

- Non-performing loans, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Past due and/or impaired overdrawn, cash exposure, other than bad or unlikely to pay loans, which have remained unpaid and/or overdrawn continuously for more than 90 days according to the current regulations.

The loans not allocated to the above categories are deemed to be performing exposures.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- non-performing loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay loan or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for non-performing loans € 15,000 for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to past due and/or impaired overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

See section 2.2 above for information about the operating policies adopted with regard to impaired loans.

3.2 Write-off

The gross carrying amount of a financial asset is written off if the amount is confirmed to be unrecoverable or there are no realistic prospects of recovery.

The timely assessment of non-recoverability is based on certain criteria, such as the inability to enforce mortgage or personal guarantees, the unsuccessful completion of enforcement/court-supervised proceedings, the start of bankruptcy procedures, removal from the register of the business name of the debtor legal entity, or the untraceability or advanced age of the customer.

The procedure to identify the absence of any reasonable prospects of recovery is focused on the counterparties within the portfolios of impaired loans and differs depending on the existence or otherwise of mortgage guarantees, the ageing of the position and the progress made with recovery actions.

Write-offs totalling 419 mln (including 197 mln partial) were recorded during the year.

3.3 Impaired financial assets purchased or originated

The category of impaired financial assets purchased or originated (POCI) includes all Purchased or Originated financial instruments that, on initial recognition, are found to be Credit Impaired.

The accounting rules for POCI apply to the financial instruments classified in asset line item 30. Financial assets measured at fair value through other comprehensive income or 40. Financial assets measured at amortised cost, or to the financial instruments that have passed the SPPI test with reference to the business models whose objective is to hold financial assets representing the right to collect contractual cash flows (HTC - «held to collect») or to both hold and sell them (HTCS - «held to collect and sell»). The «POCI» attribute remains assigned for the entire duration of the relationship and the assets concerned are written down to reflect any losses expected over their residual lifetime.

There are two categories of product associated with POCI financial instruments arising from the granting of finance:

- standard products with instalment repayment plans: in this case, the DelFiWeb procedure recognises the creation of the new relationship that passes the SPPI test, but with an impaired counterparty and automatically assigns the «POCI» attribute for approval by the competent decision-making body;
- standard products managed with the current accounts and international accounts, and non-standard contracts originated by the corporate finance department: for these relationships, the Unit responsible for monitoring and managing anomalous credit manually assigns the «POCI» attribute for approval by the competent decision-making body.

Regardless of how assigned (manual or automatic), the «POCI» attribute must always be confirmed by the competent decision-making body and, once approved, remains valid for the entire duration of the relationship.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Financial assets subject to commercial renegotiation

This category includes those renegotiations that envisage changes for commercial reasons to the original contractual conditions governing credit exposures to counterparties that are not in financial difficulty. These changes therefore differ from forbearance and are made to align interest levels with current market conditions.

In addition, commercial renegotiations include changes to the economic conditions applied to newly-arranged credit relationships, being those established for not more than 6 months.

Commercial renegotiations are principally agreed in order to maintain the commercial relationship with the customer (retention of existing loans).

In a market context characterised by low rates, not least in view of the strategies adopted by competitors in the Italian banking systems, especially with regard to lending to businesses and households, the Bank has received many requests to review the economic conditions applied. These are considered with reference to the rating of the counterparty and its prospective profitability, with a view to maintaining and developing the relationship and, therefore, retaining the lending business.

By contrast with the forbearance measures, the renegotiations for commercial reasons relate to debtors without financial difficulties and include all operations designed to align their cost of borrowing with market conditions. Commercial renegotiations involve changing the original contractual conditions at the request of the debtor, considering the cost of borrowing or the duration of the loan, with a resulting benefit for the customer. In general, whenever the Bank agrees to renegotiate in order to avoid losing the customer, the transaction is considered substantial because, in its absence, the customer would obtain funding from other sources and the Bank would the expected future revenue streams. Transactions of this type are treated as an early close-out of the original loan and the arrangement of a new contract.

Exposures subject to forbearance

The Bank treats as forbearance the concessions granted in relation to any exposure - loans, debt securities, revocable and irrevocable commitments to grant loans (excluding the exposures held for trading) – towards debtors that are, or are about to be, in difficulty with regard to their financial commitments (financial difficulties).

A concession is made when the amended contractual conditions are more favourable to the debtor than those applied previously. Consistent with the relevant current regulations, the Bank identifies a series of standardised concessions, distinguishing between short and medium/long-term measures, and periodically monitors their effectiveness in terms of bringing the exposures back into line.

For a relationship to be classified as forborne, the concession must be agreed in relation to a customer that is experiencing financial difficulties. This situation is confirmed objectively if the counterparty is classified as non performing, while it is assumed, subject to detailed analysis and assessment, if the counterparty rating of a performing customer reflects a high degree of risk, or the position concerned is past due or was past due for at least 30 days during the three-month period prior to amending the contract, or there is evidence via the Central Risks database of «corrected non-performing» status.

In order to guarantee the quality of credit exposures and monitor their trends effectively, the Bank applies «industrialised» internal processes designed to identify the most suitable concessions for debtors experiencing financial difficulties, as well as to manage the forborne classification of the related exposures.

When a concession is requested, the Operating Unit responsible for the loan determines the most suitable and sustainable measure for the customer, with support from dedicated tools that provide guidance.

As part of this process, the Unit must assess the nature of the financial difficulties (short or long term) and ensure that the expected duration of the concession is consistent with the nature of the related relationship.

Subsequently, the economic sustainability of the measure is analysed with respect to the financial situation of the customer; in particular, the adequacy of the assets of the customer is analysed on a current and prospective basis, considering the need for credibility and prudence.

On arrangement of the concession, dedicated IT procedures check if the conditions exist for classifying the relationship as forborne and, if they do, propose the assignment of this attribute to the competent Operating Unit.

Any exceptions made to this classification must be supported by adequate reasons.

Following approval of the concession and the proposed forborne classification by the competent decision-making body, specific objectives and deadlines are added to the loan contract, with which the customer must comply when repaying the debt.

This supplementary conditions are determined using prudent criteria and checked as part of the more general monitoring of the position.

The gross exposure associated with forborne positions at 31 December 2019 totals € 1,756 million, as analysed in the following table:

Gross balances at 31/12/2019 €/000	Retail Secured	Retail Unsecured	Corporate Secured	Corporate Unsecured	Large Corporate	Total
Performing «forborne» - First year of probation period	88,116	55,279	183,381	71,404	25,158	423,338
Performing «forborne» - Second year of probation period	90,532	18,891	151,930	39,518	1,604	302,475
Non Performing Forborne	142,753	69,652	547,650	221,831	48,553	1,030,439
Total	**321,401**	**143,822**	**882,961**	**332,753**	**75,315**	**1,756,252**

Of this amount, about € 557 million relates to concessions granted during 2019: 56% performing and 44% non-performing relationships.

During the year, about 9% of the opening «forborne non performing» balance was subjected to additional measures, while 20% of the opening «forborne performing» balance became fully performing and no longer classified as forborne.

About 13% of the opening gross exposure to forborne performing positions was reclassified as impaired during 2019.

In the event of non-substantial changes to a position, IFRS 9 requires the resulting gain or loss to be determined. A change is deemed non-substantial when it does not result in closure of the pre-existing relationship and/or involve the addition of clauses that might cause the relationship to fail the SPPI test.

The profit or loss on non-substantial changes to forborne relationships is calculated as the difference between the present value of the new contractual cash flows following renegotiation or amendment, discounted using the original effective interest rate (rate before the renegotiation or amendment of the loan contract), and the present value of the original contractual cash flows, also discounted using the original effective interest rate. The forbearance measures granted during the year resulted in net amendment losses of about € 3.3 million being charged to the income statement. These losses reduced the carrying amount of the gross exposure and, therefore, the expected future losses.

All «forborne performing» positions are classified in stage 2 and the related adjustments are stated at an amount equal to the lifetime losses expected on the loan. The reduction in credit risk and the allocation of the relationship to stage 1 reflects loss of the forborne attribute.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Past due exposures, not impaired	Other performing exposures	**Total 31/12/2019**
1. Financial assets measured at amortised cost	666,629	786,954	26,783	204,323	28,730,683	30,415,372
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,503,777	2,503,777
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	35,178	355	10,068	252,065	297,666
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2019	**666,629**	**822,132**	**27,138**	**214,391**	**31,486,525**	**33,216,815**
Total 31/12/2018	**759,774**	**969,238**	**59,346**	**293,258**	**31,893,330**	**33,974,946**

The term «credit exposures» is understood to exclude equities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and asset quality (gross and net values)

	Impaired				Performing			
Portfolio/quality	Gross exposure	Total adjustments	Net exposure	Total partial write-offs *	Gross exposure	Total adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	3,558,404	2,078,038	1,480,366	293,517	29,032,321	97,315	28,935,006	30,415,372
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,504,888	1,111	2,503,777	2,503,777
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	48,297	12,764	35,533	–	–	–	262,133	297,666
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 31/12/2019	**3,606,701**	**2,090,802**	**1,515,899**	**293,517**	**31,537,209**	**98,426**	**31,700,916**	**33,216,815**
Total 31/12/2018	**4,041,995**	**2,253,638**	**1,788,358**	**138,374**	**32,051,165**	**93,593**	**32,186,588**	**33,974,947**

The gross carrying amount of financial assets measured at fair value at year end includes the credit risk component.

Partial writeoffs recorded over the years in relation to the above portfolios total € 293.355 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	8	96	126,084
2. Hedging derivatives	–	–	–
Total 31/12/2019	**8**	**96**	**126,084**
Total 31/12/2018	**9**	**83**	**170,439**

A.1.3 Distribution of financial assets by past due bands (book values)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	77,100	8	–	34,467	62,846	29,903	10,538	32,551	1,033,481
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
Total 31/12/2019	**77,100**	**8**	**–**	**34,467**	**62,846**	**29,903**	**10,538**	**32,551**	**1,033,481**
Total 31/12/2018	**72,257**	**14**	**–**	**36,727**	**115,257**	**58,620**	**7,300**	**49,667**	**1,258,298**

A.1.4 Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total adjustments							
	Assets included in the first stage					Assets included in the second stage		
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold
Total opening adjustments	**41,778**	**2,578**	**-**	**-**	**44,358**	**49,167**	**69**	**-**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-
Cancellations other than by write-offs	-	-	-	-	-	-	-	-
Net adjustments for credit risk (+/-)	(30,376)	(1,516)	-	-	(31,892)	13,513	(20)	-
Contractual amendments without cancellation	-	-	-	-	-	(14)	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-
Insignificant write-offs charged directly to the income statement	-	-	-	-	-	-	-	-
Other changes	21,829	-	-	-	21,826	1,419	-	-
Total closing adjustments	**33,231**	**1,062**	**-**	**-**	**34,292**	**64,084**	**49**	**-**
Collections against financial assets already written off	-	-	-	-	-	-	-	-
Write-offs charged directly to the income statement	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to grant loans and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	1,120,678	817,362	144,186	83,209	94,256	15,960
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Commitments to make loans and financial guarantees given	206,784	588,918	2,007	4,869	11,550	3,757
Total 31/12/2019	**1,327,462**	**1,406,280**	**146,193**	**88,078**	**105,806**	**19,717**
Total 31/12/2018	**1,174,364**	**1,603,258**	**308,783**	**95,651**	**164,293**	**28,906**

		Total adjustments									
		Assets included in the third stage						Total provisions on commitments to grant loans and financial guarantees given			
of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Of which: impaired financial assets purchased or originated	first stage	second stage	third stage	**Total 31/12/2019**
-	**49,236**	**2,245,179**	**-**	**-**	**2,245,179**	**-**	**122,698**	**4,863**	**1,401**	**15,207**	**2,360,243**
-	-	1,593	-	-	1,593	-	1,593	-	-	-	1,593
-	-	-	-	-	-	-	-	-	-	-	-
-	13,493	268,383	-	-	268,383	-	18,625	2,227	642	(4,522)	248,331
-	(14)	(598)	-	-	(598)	-	-	-	-	-	(612)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	(419,278)	-	-	(419,278)	-	-	-	-	-	(419,278)
-	1,419	(17,241)	-	-	(17,241)	-	(31,427)	-	-	-	6,005
-	**64,134**	**2,078,038**	**-**	**-**	**2,078,038**	**-**	**111,488**	**7,090**	**2,043**	**10,685**	**2,196,282**
-	-	19,982	-	-	19,982	-	-	-	-	-	19,982
-	-	29,481	-	-	29,481	-	-	-	-	-	29,481

A.1.6 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs *
A. **On-balance sheet exposures**	**–**	**–**	**–**	**–**	**–**
a) Non-performing loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	34	–	34	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	3,006,149	1,229	3,004,920	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**3,006,183**	**1,229**	**3,004,954**	**–**
B. **Off-balance sheet credit exposures**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–
b) Performing	–	1,101,901	353	1,101,548	–
Total (B)	**–**	**1,101,901**	**353**	**1,101,548**	**–**
Total (A+B)	**–**	**4,108,084**	**1,582**	**4,106,502**	**–**

Cash exposures include loans and receivables with banks shown in item 40 a) as well as other financial assets represented by bank securities included in items 20 c) and 30 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs *
A. **On-balance sheet exposures**					
a) Non-performing loans	2,236,777	–	1,570,148	666,629	293,355
- of which: exposures subject to forbearance	272,728	–	178,062	94,666	35,756
b) Unlikely-to-pay loans	1,339,512	–	517,380	822,132	163
- of which: exposures subject to forbearance	753,595	–	297,649	455,946	163
c) Impaired past due exposures	30,412	–	3,274	27,138	–
- of which: exposures subject to forbearance	4,116	–	429	3,687	–
d) Performing past due exposures	–	220,672	6,314	214,358	–
- of which: exposures subject to forbearance	–	30,234	1,358	28,876	–
e) Other performing exposures	–	28,655,186	90,883	28,564,303	951
- of which: exposures subject to forbearance	–	695,574	16,943	678,631	951
Total (A)	**3,606,701**	**28,875,858**	**2,187,999**	**30,294,560**	**294,469**
B. **Off-balance sheet credit exposures**	**–**	**–**	**–**	**–**	**–**
a) Impaired	310,945	–	33,426	277,519	–
b) Performing	–	18,127,764	9,011	18,118,753	–
Total (B)	**310,945**	**18,127,764**	**42,437**	**18,396,272**	**–**
Total (A+B)	**3,917,646**	**47,003,622**	**2,230,436**	**48,690,832**	**294,469**

Cash exposures include the customer loans shown in item 40b as well as other financial assets represented by non-bank securities included in items 20c and 30 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.9 Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures
A. **Opening gross exposure**	**2,447,319**	**1,520,977**	**73,703**
- of which: sold but not eliminated from the balance sheet	–	8,546	1,072
B. **Increases**	**393,127**	**474,296**	**31,968**
B.1 transfers from performing loans	33,162	211,302	27,836
B.2 transfers from impaired financial assets purchased or originated	17	25,502	–
B.3 transfers from other categories of impaired exposures	237,805	40,567	–
B.4 contractual amendments not resulting in derecognition	–	–	–
B.5 other increases	122,143	196,925	4,132
C. **Decreases**	**603,669**	**655,761**	**75,259**
C.1 transfers to performing loans	–	93,936	2,701
C.2 write-offs	419,278	–	–
C.3 collections	170,038	322,623	23,344
C.4 proceeds from disposals	4,633	5,053	–
C.5 losses on disposal	264	422	–
C.6 transfers to other categories of impaired exposure	–	229,158	49,214
C.7 contractual amendments not resulting in derecognition	–	2,106	–
C.8 other decreases	9,455	2,463	–
D. **Closing gross exposure**	**2,236,777**	**1,339,512**	**30,412**
- of which: sold but not eliminated from the balance sheet	–	7,887	850

A.1.9bis Cash exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**813,271**	**593,785**
- of which: sold but not eliminated from the balance sheet	2,663	23,760
B. **Increases**	**426,565**	**394,254**
B.1 transfers from performing loans not subject to forbearance	39,932	254,448
B.2 transfers from performing loans subject to forbearance	79,356	-
B.3 transfers from loans subject to forbearance and impaired	–	78,743
B.4 transfers from impaired loans not subject to forbearance	–	–
B.4 other increases	307,277	61,063
C. **Decreases**	**209,396**	**262,231**
C.1 transfers to performing loans not subject to forbearance	–	109,386
C.2 transfers to performing loans subject to forbearance	78,743	–
C.3 transfers to loans subject to forbearance and impaired	–	79,356
C.4 write-offs	22,350	–
C.5 collections	58,786	51,520
C.6 proceeds from disposals	905	–
C.7 losses on disposal	188	–
C.8 other decreases	48,424	21,969
D. **Closing gross exposure**	**1,030,440**	**725,808**
- of which: sold but not eliminated from the balance sheet	2,647	25,668

A.1.11 Impaired cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Impaired past due exposures	
	Total	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance
A. **Total opening adjustments**	**1,687,545**	**112,123**	**551,737**	**208,349**	**14,356**	**912**
- of which: sold but not eliminated from the balance sheet	–	–	1,127	268	107	–
B. **Increases**	**380,541**	**96,674**	**184,544**	**145,241**	**3,376**	**419**
B.1 adjustments to impaired assets purchased or originated	–	–	1,593	–	–	–
B.2 other adjustments	192,307	24,358	163,365	99,318	2,892	227
B.3 losses on disposal	–	–	–	–	–	–
B.4 transfers from other categories of impaired exposures	102,017	26,192	12,519	558	–	–
B.5 contractual amendments not resulting in derecognition	–	–	–	–	–	–
B.6 other increases	86,220	46,124	7,067	45,365	484	192
C. **Decreases**	**497,938**	**30,735**	**218,901**	**55,941**	**14,458**	**902**
C.1 write-backs on valuation	37,109	–	27,394	18,171	100	103
C.2 write-backs due to collections	39,439	4,805	80,973	11,225	934	1
C.3 gains on disposal	2,114	–	1,124	–	–	–
C.4 write-offs	419,278	22,350	–	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	101,273	25,955	13,262	796
C.6 contractual amendments not resulting in derecognition	–	–	598	590	–	–
C.7 other decreases	–	3,580	7,539	–	162	2
D. **Total closing adjustments**	**1,570,148**	**178,062**	**517,380**	**297,649**	**3,274**	**429**
- of which: sold but not eliminated from the balance sheet	–	–	933	262	84	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to make loans and financial guarantees given: by external rating class (gross values)

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2019
A. **Financial assets measured at amortised cost**	**5,193,321**	**1,027,115**	**218,461**	**123,385**	**152,870**	**7**	**25,875,566**	**32,590,725**
- First stage	5,193,321	1,027,115	218,461	123,351	152,600	–	19,246,768	25,961,616
- Second stage	–	–	–	34	270	7	3,070,394	3,070,705
- Third stage	–	–	–	–	–	–	3,558,404	3,558,404
B. **Financial assets measured at fair value through other comprehensive income**	**1,654,902**	**194,978**	**514,535**	**128,359**	**–**	**–**	**12,114**	**2,504,888**
- First stage	1,654,902	194,978	507,431	128,359	–	–	12,114	2,497,784
- Second stage	–	–	7,104	–	–	–	–	7,104
- Third stage	–	–	–	–	–	–	–	–
Total (A+B)	**6,848,223**	**1,222,093**	**732,996**	**251,744**	**152,870**	**7**	**25,887,680**	**35,095,613**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	297,384	297,384
C. **Commitments to make loans and financial guarantees given**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	4,176	2,216	227,582	4,012	–	–	12,055,140	12,293,126
- Second stage	–	–	5,000	17,468	–	397	944,873	967,738
- Third stage	–	–	–	–	–	–	135,926	135,926
Total (C)	**4,176**	**2,216**	**232,582**	**21,480**	**–**	**397**	**13,135,939**	**13,396,790**
Total (A+B+C)	**6,852,399**	**1,224,309**	**965,578**	**273,224**	**152,870**	**404**	**39,023,619**	**48,492,403**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	from CCC+ down

A.2.2 Distribution of financial assets, commitments to make loans and financial guarantees given: by internal rating class (gross values)

INDIVIDUALS

Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
	Internal rating classes						
A. **Financial assets measured at amortised cost**	**14,670**	**27,426**	**91,162**	**337,775**	**711,539**	**591,647**	**580,259**
- First stage	14,506	26,945	87,636	307,066	641,611	514,387	498,038
- Second stage	164	481	3,526	30,709	69,928	77,260	82,221
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**14,670**	**27,426**	**91,162**	**337,775**	**711,539**	**591,647**	**580,259**
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
C. **Commitments to make loans and financial guarantees given**	**28,825**	**34,118**	**56,061**	**88,582**	**81,260**	**58,430**	**72,409**
1. First stage	28,809	33,319	55,299	81,955	62,002	51,372	65,078
2. Second stage	16	799	762	6,627	19,258	7,058	7,331
3. Third stage	-	-	-	-	-	-	-
Total (C)	**28,825**	**34,118**	**56,061**	**88,582**	**81,260**	**58,430**	**72,409**
Total (A+B+C)	**43,495**	**61,544**	**147,222**	**426,357**	**792,799**	**650,077**	**652,668**

SMES

Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
	Internal rating classes						
A. **Financial assets measured at amortised cost**	**103,716**	**465,033**	**650,446**	**740,000**	**960,876**	**854,175**	**1,011,892**
- First stage	101,309	450,844	625,257	657,208	826,189	738,077	782,463
- Second stage	2,407	14,189	25,189	82,792	134,687	116,098	229,429
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**103,716**	**465,033**	**650,446**	**740,000**	**960,876**	**854,175**	**1,011,892**
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
C. **Commitments to make loans and financial guarantees given**	**144,419**	**106,939**	**113,382**	**111,714**	**111,516**	**79,280**	**55,290**
1. First stage	143,627	106,265	109,475	104,113	106,777	73,532	46,868
2. Second stage	792	674	3,907	7,601	4,739	5,748	8,422
3. Third stage	-	-	-	-	-	-	-
Total (C)	**144,419**	**106,939**	**113,382**	**111,714**	**111,516**	**79,280**	**55,290**
Total (A+B+C)	**248,135**	**571,972**	**763,827**	**851,714**	**1,072,392**	**933,455**	**1,067,182**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
330,149	**290,126**	**125,800**	**117,935**	**114,602**	**75,181**	**529,024**	**3,937,294**
253,059	181,653	78,405	69,374	56,704	10,596	125	2,740,105
77,090	108,473	47,395	48,561	57,897	64,585	2	668,292
–	–	–	–	–	–	528,897	528,897
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
330,149	**290,126**	**125,800**	**117,935**	**114,602**	**75,181**	**529,024**	**3,937,294**
–	–	–	–	–	–	–	–
38,564	**15,131**	**5,216**	**4,873**	**3,761**	**3,022**	**3,471**	**493,720**
32,316	11,359	3,525	3,223	2,476	1,977	660	433,370
6,248	3,771	1,691	1,649	1,285	1,044	598	58,137
–	–	–	–	–	–	2,213	2,213
38,564	**15,131**	**5,216**	**4,873**	**3,761**	**3,022**	**3,471**	**493,720**
368,713	**305,256**	**131,015**	**122,808**	**118,363**	**78,203**	**532,495**	**4,431,014**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
492,085	**286,499**	**228,818**	**110,885**	**98,283**	**43,849**	**1,753,001**	**7,799,559**
388,868	200,476	168,681	53,844	18,193	2,598	14,582	5,028,589
103,217	86,023	60,137	57,041	80,090	41,251	280	1,032,830
–	–	–	–	–	–	1,738,140	1,738,140
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
492,085	**286,499**	**228,818**	**110,885**	**98,283**	**43,849**	**1,753,001**	**7,799,557**
–	–	–	–	–	–	–	–
36,570	**28,175**	**21,447**	**9,325**	**3,828**	**6,868**	**100,306**	**929,058**
29,866	23,371	15,258	7,460	2,802	851	28,895	799,160
6,703	4,803	6,190	1,865	1,025	6,017	2,050	60,535
–	–	–	–	–	–	69,362	69,362
36,570	**28,175**	**21,447**	**9,325**	**3,828**	**6,868**	**100,306**	**929,057**
528,655	**314,673**	**250,265**	**120,210**	**102,110**	**50,717**	**1,853,307**	**8,728,616**

SMALL BUSINESS

Exposure	Internal rating classes Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**32,436**	**45,162**	**106,439**	**174,832**	**232,848**	**273,867**	**235,068**
- First stage	29,994	43,445	97,247	142,183	192,391	223,528	180,950
- Second stage	2,442	1,717	9,192	32,649	40,457	50,339	54,118
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**32,436**	**45,162**	**106,439**	**174,832**	**232,848**	**273,867**	**235,068**
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
C. **Commitments to make loans and financial guarantees given**	**28,825**	**34,118**	**56,061**	**88,582**	**81,260**	**58,430**	**72,409**
1. First stage	28,809	33,319	55,299	81,955	62,002	51,372	65,078
2. Second stage	16	799	762	6,627	19,258	7,058	7,331
3. Third stage	-	-	-	-	-	-	-
Total (C)	**28,825**	**34,118**	**56,061**	**88,582**	**81,260**	**58,430**	**72,409**
Total (A+B+C)	**61,261**	**79,280**	**162,500**	**263,414**	**314,108**	**332,297**	**307,477**

MICRO-ENTERPRISES

Exposure	Internal rating classes Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**37,063**	**78,588**	**280,538**	**293,201**	**87,077**	**194,061**	**178,670**
- First stage	36,458	75,865	269,363	263,872	76,683	162,109	147,677
- Second stage	605	2,723	11,175	29,329	10,394	31,952	30,993
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**37,063**	**78,588**	**280,539**	**293,201**	**87,077**	**194,061**	**178,670**
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
C. **Commitments to make loans and financial guarantees given**	**33,304**	**45,657**	**64,973**	**49,208**	**20,658**	**36,072**	**42,584**
1. First stage	32,935	44,576	62,868	44,160	11,034	33,402	32,020
2. Second stage	369	1,081	2,105	5,048	9,624	2,670	10,564
3. Third stage	-	-	-	-	-	-	-
Total (C)	**33,304**	**45,657**	**64,973**	**49,208**	**20,658**	**36,072**	**42,584**
Total (A+B+C)	**70,367**	**124,245**	**345,511**	**342,409**	**107,735**	**230,133**	**221,254**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
167,248	**133,216**	**110,751**	**65,201**	**43,420**	**37,917**	**721,603**	**2,380,009**
107,019	84,853	65,063	36,111	16,635	4,868	0	1,224,288
60,229	48,363	45,688	29,091	26,785	33,049	–	434,118
–	–	–	–	–	–	721,603	721,603
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
167,248	**133,216**	**110,751**	**65,202**	**43,420**	**37,917**	**721,603**	**2,380,009**
–	–	–	–	–	–	–	–
38,564	**15,130**	**5,216**	**4,872**	**3,761**	**3,021**	**39,426**	**529,675**
32,316	11,359	3,525	3,223	2,476	1,977	356	433,066
6,248	3,771	1,691	1,649	1,285	1,044	13	57,552
–	–	–	–	–	–	39,057	39,057
38,564	**15,130**	**5,216**	**4,872**	**3,761**	**3,021**	**39,426**	**529,675**
205,812	**148,346**	**115,967**	**70,074**	**47,181**	**40,938**	**761,029**	**2,909,684**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
153,326	**127,092**	**92,631**	**99,389**	**84,895**	**77,718**	**402,965**	**2,187,214**
119,575	86,780	56,126	55,892	36,733	6,575	34	1,393,741
33,751	40,312	36,505	43,497	48,162	71,143	3	390,545
–	–	–	–	–	–	402,928	402,928
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
153,326	**127,092**	**92,631**	**99,389**	**84,895**	**77,718**	**402,965**	**2,187,214**
–	–	–	–	–	–	–	–
23,454	**17,948**	**11,459**	**10,499**	**9,171**	**7,705**	**4,904**	377,596
19,073	13,660	8,140	6,027	6,731	3,760	353	318,741
4,381	4,288	3,319	4,472	2,440	3,945	88	54,392
–	–	–	–	–	–	4,463	4,463
23,454	**17,948**	**11,459**	**10,499**	**9,171**	**7,705**	**4,904**	**377,596**
176,780	**145,040**	**104,090**	**109,888**	**94,066**	**85,423**	**407,869**	**2,564,810**

LARGE ENTERPRISES; PUBLIC ENTERPRISES

Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
	Internal rating classes						
A. **Financial assets measured at amortised cost**	**23,292**	**221,016**	**432,406**	**326,111**	**336,977**	**202,114**	**176,949**
- First stage	21,707	221,016	425,162	308,254	252,792	150,604	147,716
- Second stage	1,585	–	7,244	17,857	84,185	51,510	29,233
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**27,126**	**14,267**	**–**	**1,031**	**–**
- First stage	–	–	27,126	14,267	–	1,031	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**23,292**	**221,016**	**459,532**	**340,378**	**336,977**	**203,145**	**176,949**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**220,148**	**338,437**	**669,586**	**727,571**	**469,608**	**158,031**	**233,603**
1. First stage	219,752	334,437	663,538	670,092	325,085	124,610	159,268
2. Second stage	396	4,000	6,048	57,479	144,523	33,421	74,335
3. Third stage	–	–	–	–	–	–	–
Total (C)	**220,148**	**338,437**	**669,586**	**727,571**	**469,608**	**158,031**	**233,603**
Total (A+B+C)	**243,440**	**559,453**	**1,129,118**	**1,067,949**	**806,585**	**361,176**	**410,552**

OTHER

Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
	Internal rating classes						
A. **Financial assets measured at amortised cost**	**1,538**	**14,104**	**39,334**	**254,134**	**35,329**	**49,618**	**85,383**
- First stage	1,468	13,254	35,704	234,281	31,078	48,520	20,311
- Second stage	70	850	3,630	19,853	4,251	1,098	65,072
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**1,538**	**14,104**	**39,334**	**254,134**	**35,329**	**49,618**	**85,383**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**14,252**	**16,741**	**27,279**	**107,088**	**33,728**	**31,866**	**93,667**
1. First stage	14,002	12,516	27,005	95,113	21,059	30,315	49,408
2. Second stage	250	4,225	274	11,975	12,669	1,551	44,259
3. Third stage	-	-	-	-	-	-	-
Total (C)	**14,252**	**16,741**	**27,279**	**107,088**	**33,728**	**31,866**	**93,667**
Total (A+B+C)	**15,790**	**30,845**	**66,613**	**361,222**	**69,057**	**81,484**	**179,050**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
157,354	**242,129**	**15,363**	**–**	**–**	**42,727**	**77,923**	**2,254,361**
96,148	211,656	6,578	–	–	–	1	1,841,634
61,206	30,473	8,785	–	–	42,727	–	334,805
–	–	–	–	–	–	77,922	77,922
–	**8,597**	**–**	**–**	**–**	**–**	**–**	**51,021**
–	8,597	–	–	–	–	–	51,021
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
157,354	**250,726**	**15,363**	**–**	**–**	**42,727**	**77,923**	**2,305,382**
–	–	–	–	–	–	–	–
109,108	**53,510**	**6,473**	**–**	**–**	**4,922**	**26,434**	**3,017,431**
94,764	12,696	3,196	–	–	–	6,000	2,613,438
14,344	40,815	3,276	–	–	4,922	–	383,559
–	–	–	–	–	–	20,434	20,434
109,108	**53,510**	**6,473**	**–**	**–**	**4,922**	**26,434**	**3,017,431**
266,462	**304,236**	**21,836**	**–**	**–**	**47,649**	**104,357**	**5,322,813**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
82,951	**28,262**	**54,632**	**233**	**618**	**21**	**13,386,134**	**14,032,291**
55,195	23,942	47,973	133	581	15	13,220,808	13,733,262
27,756	4,320	6,659	100	37	6	76,412	210,115
–	–	–	–	–	–	88,914	88,914
–	**–**	**–**	**–**	**–**	**–**	**2,452,757**	**2,452,757**
–	–	–	–	–	–	2,445,702	2,445,702
–	–	–	–	–	–	7,055	7,055
–	–	–	–	–	–	–	–
82,951	**28,262**	**54,632**	**233**	**618**	**21**	**15,838,891**	**16,485,048**
–	–	–	–	–	–	–	–
13,594	**7,734**	**3,696**	**7,176**	**9**	**39**	**8,398,097**	**8,754,966**
13,352	7,722	3,654	7,176	7	39	8,253,474	8,534,842
242	12	42	0	2	–	144,226	219,727
-	-	-	-	-	-	397	397
13,594	**7,734**	**3,696**	**7,176**	**9**	**39**	**8,398,097**	**8,754,966**
96,545	**35,996**	**58,328**	**7,409**	**627**	**60**	**24,236,988**	**25,240,014**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category;

The Bank uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Guaranteed cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**27,690**	**27,682**	**–**	**–**	**–**	**–**
1.1. fully guaranteed	21,318	21,312	–	–	–	–
- of which: impaired	–	–	–	–	–	–
1.2. partially guaranteed	6,372	6,370	–	–	–	–
- of which: impaired	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**41,014**	**41,013**	**–**	**–**	**2,014**	**–**
2.1. fully guaranteed	18,501	18,499	–	–	148	–
- of which: impaired	–	–	–	–	–	–
2.2. partially guaranteed	22,513	22,513	–	–	1,866	–
- of which: impaired	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
Other derivatives					Guarantees given				
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**33**	**–**	**27,097**	**–**	**27,130**
–	–	–	–	–	33	–	21,279	–	21,312
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,818	–	5,818
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**33,929**	**–**	**2,953**	**–**	**38,896**
–	–	–	–	–	16,178	–	2,172	–	18,498
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	17,751	–	781	–	20,398
–	–	–	–	–	–	-	-	-	–

A.3.2 Guaranteed cash and off-balance sheet exposures to customers

			Secured guarantees (1)			
	Gross exposure	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**14,824,189**	**13,540,835**	**8,844,525**	**–**	**1,465,983**	**250,574**
1.1. fully guaranteed	13,966,533	12,782,986	8,840,088	–	1,387,487	206,450
- of which: impaired	2,437,615	1,308,546	1,123,198	–	9,941	5,520
1.2. partially guaranteed	857,656	757,849	4,437	–	78,496	44,124
- of which: impaired	152,034	55,959	3,518	–	7,166	643
2. **Guaranteed off-balance sheet exposures:**	**3,467,158**	**3,457,163**	**392,021**	**–**	**127,751**	**200,591**
2.1. fully guaranteed	2,771,476	2,762,984	390,913	–	103,370	64,491
- of which: impaired	104,927	98,549	13,756	–	610	1,126
2.2. partially guaranteed	695,682	694,179	1,108	–	24,381	136,100
- of which: impaired	14,349	13,670	–	–	223	400

A.4 Financial and non-financial assets obtained by enforcing guarantees received

				Book value	
	Credit exposure cancelled	Gross value	Total writedowns		of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**135,913**	**96,103**	**–**	**96,103**	**96,103**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	
Total 31/12/2019	**135,913**	**96,103**	**–**	**96,103**	**96,103**
Total 31/12/2018	**108,123**	**94,125**	**–**	**94,125**	**94,125**

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.6. and A.1.7., exposures to counterpart risk relating to loans of securities or goods, granted or received.

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**238,231**	**14,487**	**227,489**	**2,257,122**	**13,298,411**
–	–	–	–	–	129,478	12,715	209,405	1,949,984	12,735,607
–	–	–	–	–	4,225	625	23,941	106,737	1,274,188
–	–	–	–	–	108,753	1,772	18,084	307,138	562,804
–	–	–	–	–	3,447	72	4,156	29,280	48,282
–	**–**	**–**	**–**	**–**	**9,718**	**6,483**	**95,931**	**2,325,748**	**3,158,243**
–	–	–	–	–	5,697	2,553	84,865	2,055,936	2,707,825
–	–	–	–	–	184	–	18,302	63,106	97,084
–	–	–	–	–	4,021	3,930	11,066	269,812	450,418
–	–	–	–	–	320	–	–	10,120	11,064

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers

Exposures/Counterparties	Public administrations		Financial companies	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	–	–	9,153	43,157
- of which exposures subject to forbearance	–	–	406	6,018
A.2 Unlikely-to-pay loans	–	–	13,467	13,365
- of which exposures subject to forbearance	–	–	10,814	10,030
A.3 Past due exposures, impaired	3	–	7	–
- of which exposures subject to forbearance	–	–	–	–
A.4 Not impaired exposures	8,016,236	3,721	4,933,827	10,363
- of which exposures subject to forbearance	43,513	49	803	28
Total (A)	**8,016,239**	**3,721**	**4,956,454**	**66,885**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	50	–	100	325
B.2 Not impaired exposures	506,903	4	2,567,170	2,226
Total (B)	**506,953**	**4**	**2,567,270**	**2,551**
Total (A+B) 31/12/19	**8,523,192**	**3,725**	**7,523,724**	**69,436**
Total (A+B) 31/12/18	**10,518,549**	**3,472**	**7,300,365**	**66,067**

B.2 Territorial distribution of cash and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	662,694	1,537,655	3,929	28,094
A.2 Unlikely-to-pay loans	816,138	515,499	5,931	2,058
A.3 Past due exposures, impaired	26,633	3,207	448	58
A.4 Not impaired exposures	26,507,305	96,437	2,233,550	635
Total (A)	**28,012,770**	**2,152,798**	**2,243,858**	**30,845**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	277,437	33,420	81	6
B.2 Not impaired exposures	17,745,705	8,846	347,495	162
Total (B)	**18,023,142**	**42,266**	**347,576**	**168**
Total (A+B) 31/12/19	**46,035,912**	**2,195,064**	**2,591,434**	**31,013**
Total (A+B) 31/12/18	**47,530,881**	**2,353,479**	**2,414,616**	**30,941**

As regards the geographical distribution of exposures to customers resident in Italy, amounts «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (63.9%) and Centre (27%), followed by the North East (8.1%) and the South and Islands (0.9%).

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	472,771	1,082,400	184,705	444,591
–	–	72,755	132,568	21,505	39,477
–	–	598,045	424,335	210,620	79,864
–	–	357,912	249,488	87,221	38,316
–	–	11,433	756	15,694	2,517
–	–	1,422	101	2,265	328
13,522	65	10,290,356	53,421	5,538,242	29,692
–	–	452,341	12,003	210,850	6,221
13,522	**65**	**11,372,605**	**1,560,912**	**5,949,261**	**556,664**
–	–	269,573	31,872	7,796	1,229
9,969	–	13,671,357	4,948	1,373,318	1,833
9,969	**–**	**13,940,930**	**36,820**	**1,381,114**	**3,062**
23,491	**65**	**25,313,535**	**1,597,732**	**7,330,375**	**559,726**
21,710	**13**	**24,945,075**	**1,811,421**	**7,262,337**	**507,949**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
6	536	–	3,852	–	11
63	7	–	–	–	–
48	6	9	3	–	–
13,533	15	22,267	106	2,006	6
13,650	**564**	**22,276**	**3,961**	**2,006**	**17**
–	–	–	–	–	–
24,948	2	236	–	363	–
24,948	**2**	**236**	**–**	**363**	**–**
38,598	**566**	**22,512**	**3,961**	**2,369**	**17**
40,858	**555**	**27,328**	**3,912**	**34,322**	**33**

B.3 Territorial distribution of cash and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	1,444,521	853	1,499,408	363
Total (A)	**1,444,521**	**853**	**1,499,408**	**363**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	–	–	–	–
B.2 Not impaired exposures	195,700	155	853,972	197
Total (B)	**195,700**	**155**	**853,972**	**197**
Total (A+B) 31/12/19	**1,640,221**	**1,008**	**2,353,380**	**560**
Total (A+B) 31/12/18	**1,597,372**	**98**	**2,004,613**	**576**

B.4 Significant risks

	31/12/2019	**31/12/2018**
Number of positions	15	13
Exposure	15,239,966	15,893,730
Risk position	4,038,925	2,832,915

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 6,543 million; risk position, 16 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,720 million; risk position, 0 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
22,212	7	9,547	2	29,265	4
22,212	**7**	**9,547**	**2**	**29,265**	**4**
–	–	–	–	–	–
583	–	47,787	2	3,505	–
583	**–**	**47,787**	**2**	**3,505**	**–**
22,795	**7**	**57,334**	**4**	**32,770**	**4**
17,814	**9**	**10,561**	**1**	**2,934**	**–**

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	31,128	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	174,894	162	–	–	–	–

The note linked with the securitisation by Bnt Portfolio SPV Srl is classified among the financial assets mandatorily measured at fair value through profit and loss. That fair value is indicated in the «Book value» column.

C.3 Banking group – Non-consolidated special purpose vehicle for securitisation

Name	Registered offices	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	265,186
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	235,992

C.4 Banking group – Non-consolidated special purpose vehicle for securitisation

Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated due to the absence of control, as defined by IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	17,619	175,057	–	75,156
–	13,784	326,090	–	–

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Financial assets sold and recognised in full and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: impaired	Carrying amount	of which: subject to transactions transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**51,668**	**–**	**51,668**	**–**	**(51,672)**	**–**	**(51,672)**
1. Fixed-yield securities	51,668	–	51,668	–	(51,672)	–	(51,672)
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
4. Derivatives	–	–	–	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Finanziamenti	–	–	–	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**189,020**	**–**	**189,020**	**–**	**(189,083)**	**–**	**(189,083)**
1. Fixed-yield securities	189,020	–	189,020	–	(189,083)	–	(189,083)
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. **Financial assets measured at amortised cost**	**264,827**	**–**	**264,827**	**–**	**(268,629)**	**–**	**(268,629)**
1. Fixed-yield securities	264,827	–	264,827	–	(268,629)	–	(268,629)
2. Loans	–	–	–	–	–	–	–
Total 31/12/2019	**505,515**	**–**	**505,515**	**–**	**(509,384)**	**–**	**(509,384)**
Total 31/12/2018	**115,549**	**–**	**115,549**	**–**	**(100,134)**	**–**	**(100,134)**

These are securities sold under repurchase agreements.

E.3 Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Recognised in part	**Total 31/12/2019**	**Total 31/12/2018**
A. **Financial assets held for trading**	**51,668**	**–**	**51,668**	**–**
1. Fixed-yield securities	51,668	–	51,668	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**189,020**	**–**	**189,020**	**101**
1. Fixed-yield securities	189,020	–	189,020	101
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**268,525**	**–**	**268,525**	**117,180**
1. Fixed-yield securities	268,525	–	268,525	117,180
2. Loans	–	–	–	–
Total financial assets	**509,213**	**–**	**509,213**	**117,281**
Total associated financial liabilities	**(509,383)**	**–**	**(509,383)**	**(100,134)**
Net value 31/12/2019	**(170)**	**–**	**(170)**	**–**
Net value 31/12/2018	**17,147**	**–**	**–**	**17,147**

E4. Covered bond operations

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

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

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

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

A fifth assignment of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018.

Lastly, a seventh assignment of performing loans for a total of € 352 million took place on 1 December 2019.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IFRS 9. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Annual	Coupon
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

F. Models for the measurement of credit risk

The Bank does not use internal portfolio models for the assessment of credit risk (VaR methodology).

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The securities classified among the «financial assets held for trading» are the principal source of interest rate risk and trading portfolio price risk. The downward trend in financial assets held for trading seen in recent years has continued, in accordance with the strategies adopted to rebalance the various portfolios. At year end, the financial assets held for trading (other than those held by the pension and real estate funds) comprise Italian government securities, 50%; shares, 32%; and mutual funds, 18%.

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is short.

The variable-yield securities largely comprise those issued by leading companies, with a large market.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

The fixed-yield securities classified as «financial assets held for trading» are the principal source of interest rate risk.

As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading»; as regards derivatives, there have been transactions in equity options mostly listed on the IDEM market.

B. Management and measurement of interest rate risk and price risk

The internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
- and analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the bank book).

With reference to the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets including, in particular, the various market risks (interest rate, exchange rate, price). This system has the following characteristics: as part of its strategic supervision functions, the Board of Directors quantifies the Maximum Acceptable Loss for the period, consistent with the investment policies defined and with financial operations expected over the next year; with reference to the Maximum Acceptable Loss determined by the Board, the Risks Committee establishes appropriate potential exposure limits in terms of the Value at Risk (VaR); the Financial Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified limits.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk.

In line with the Bank's risk map, the above limits do not apply to the securities servicing pensions and similar obligations of employees and real estate funds.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. According to this methodology, the total risk arises from the sensitivity of each position to changes in market factors and in the volatility of their yields, as well as their degree of correlation. At the reporting date, the following financial instruments exposed to interest-rate risk or price risk included in the trading portfolios held for supervisory purposes are included in the relates measurements of risk: for interest rate risk: debt securities, lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) and forward contracts on exchange rates, in addition to other financial derivatives (in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk: variable-yield securities and options on shares. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

Options and warrants are treated using the delta-gamma methodology, which is more able to reflect the risk profile of transactions where the relationship between the value of the position and the price of the underlying instrument (risk factor) is not linear.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The internal policies and procedures for back testing the results of the model against actual results involve comparison of the daily VaR with, on the one hand, the change in market value on the following day of the same positions for which the VaR was calculated (theoretical losses) and, on the other, the change in market value of the following day of the portfolio including the transactions carried out (actual losses). For back testing purposes, the VaR data and the theoretical and actual losses include, in addition to the price risk, the component of exchange rate risk originated by the positions denominated in foreign currencies.

As for the changes in risk exposure compared with the previous year, based on interest-rate risk the overall VaR at year end has decreased from 1.106 million to 0.243 million (0.078 million for the risk-free rate and 0.203 million for the credit spread) mainly due to the low risk generated by fixed-yield securities (from 1.075 to 0.208 million); price risk has also decreased, with the overall VaR at year end down from 2.783 million to 1.121 million.

The internal model described is not used to determine the capital requirements for market risk reported for supervisory purposes. The Standardised approach is used in this case.

With reference to the second methodology mentioned, based on the sensitivity analyses performed using an ALM procedure discussed later, and considering solely the fixed-yield securities in the trading portfolio for supervisory purposes, all repurchase agreements (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), the interest-rate options and the interest-rate swaps, the effect at year end of a change in interest rates of 200 basis points over a period of twelve months on future net interest income, being the difference between future interest income and future interest expense: would be +21.194 million for a positive change and -6.557 million for a negative change. The effect of an instantaneous change in interest rates by +200 basis points on equity (taking account of the forward rate agreements) – being the difference between the present value of assets and liabilities - would be a reduction in value of 3.292 million, whereas a change in interest rates by -200 basis points would result in an increase in value of 1.195 million.

The results of the stress tests are described in the following section on Quantitative Information and in section 2.2 (Interest-rate risk and price risk - Bank book).

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,116,664**	**–**	**–**	**65,094**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	17,582	–	–	65,094	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	17,582	–	–	65,094	–	–	–
1.2 Other assets	–	1,099,082	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**51,672**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	51,672	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,012,046**	**761,954**	**121,449**	**916,003**	**183,076**	**140,282**	**–**
3.1 With underlying security	–	–	–	–	149	–	–	–
- Options	–	–	–	–	149	–	–	–
+ Long positions	–	–	–	–	149	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,012,046	761,954	121,449	915,854	183,076	140,282	–
- Options	–	3,299	5,669	4,396	139,637	152,636	140,256	–
+ Long positions	–	1,652	2,837	2,198	69,818	76,318	70,128	–
+ Short positions	–	1,647	2,832	2,198	69,819	76,318	70,128	–
- Other derivatives	–	3,008,747	756,285	117,053	776,217	30,440	26	–
+ Long positions	–	1,507,957	378,156	58,616	388,109	15,220	13	–
+ Short positions	–	1,500,790	378,129	58,437	388,108	15,220	13	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,910,746**	**658,145**	**194,405**	**390,245**	**6,632**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,910,746	658,145	194,405	390,245	6,632	–	–
- Options	–	3,376	5,712	3,387	1,127	–	–	–
+ Long positions	–	1,688	2,858	1,696	565	–	–	–
+ Short positions	–	1,688	2,854	1,691	562	–	–	–
- Other derivatives	–	1,907,370	652,433	191,018	389,118	6,632	–	–
+ Long positions	–	950,183	326,218	95,509	194,559	3,316	–	–
+ Short positions	–	957,187	326,215	95,509	194,559	3,316	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	33,977	8,469	2,757	5,107	5,054	1,848	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	679	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	8,000
- short positions	–	–	–	–	–	–	4,923
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**242**
1.1 Fixed-yield securities	208
1.2 Other assets	57
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**1**
3.1 With underlying security	–
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	1
- Options	–
+ Long positions	7
+ Short positions	7
- Other derivatives	1
+ Long positions	637
+ Short positions	636
Total interest rate risk	**243**
A. **Variable-yield securities**	**892**
- Long positions	892
- Short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**19**
- Long positions	–
- Short positions	19
C. **Other derivatives on variable-yield securities**	**79**
- Long positions	79
- Short positions	–
D. **Derivatives on stock indices**	**–**
- Long positions	–
- Short positions	–
Total Price risk transactions table 2	**817**
Mutual funds	**375**
Forward contracts on other instruments (goods)	**–**
- Long positions	331
- Short positions	331
Options on other instruments (goods)	**–**
- Long positions	–
- Short positions	–
Total Price risk	**1,121**
Total Interest rate risk and price risk	**1,176**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	695
minimum	135
maximum	1,938

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2019 is shown below.

January	907
February	883
March	779
April	600
May	619
June	827
July	654
August	1,241
September	865
October	499
November	212
December	248

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 254 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 254 observations.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps. the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «*Annex III – The standardised interest rate shock scenarios*» of the «*Guidelines on the management of interest-rate risk arising from non-trading book activities*» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «*Supervisory Outlier Test*», replaced the previous minimum level of 0%. The scenarios used at 31/12/2019 did not include forward rate agreements.

In thousands of euro Exposure to risk	Change in interest margin From 31/01/2019 to 28/02/2019 at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	21,067	21,348	21,067	21,628	24,917
negative parallel shift	127	138	127	149	131
flat rotary shift	39,319	39,836	39,319	40,353	46,484
steep rotary shift	166	184	166	201	244
short-term positive shift	40,737	41,276	40,737	41,815	48,174
short-term negative shift	166	184	166	201	253
long-term positive shift	1,415	1,437	1,415	1,458	1,686
long-term negative shift	9	10	9	11	10
medium-term positive shift	2,830	2,873	2,830	2,917	3,372
medium-term negative shift	19	20	19	21	19
worst-case scenario	9	10	9	11	10

In thousands of euro Exposure to risk	Change in interest margin From 31/03/2019 to 31/12/2019 at period end	average	minimum	maximum	at period start
positive parallel shift	21,194	22,922	20,918	25,787	23,903
negative parallel shift	-6,557	-537	-6,557	175	160
parallel shock up	21,194	22,931	20,928	25,803	23,914
parallel shock down	-6,557	-536	-6,557	176	161
steepener shock	-6,556	-578	-6,556	118	96
flattener shock	14,687	16,112	14,687	18,125	16,910
short shock up	20,237	22,095	20,237	24,852	23,144
short shock down	-6,556	-530	-6,556	187	187
worst-case scenario	-6,557	-578	-6,557	118	96

Effects of a change in interest rates on equity.

Equity is understood to be the difference between the present value of assets and liabilities items.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest-rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%.

In thousands of euro	Change in equity				
	from 31/01/2019 to 28/02/2019				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	-3,991	-4,109	-4,227	-3,991	-4,484
negative parallel shift	107	103	100	107	138
flat rotary shift	-6,261	-6,456	-6,651	-6,261	-7,067
steep rotary shift	106	102	97	106	123
short-term positive shift	-6,924	-7,137	-7,349	-6,924	-7,800
short-term negative shift	106	102	97	106	122
long-term positive shift	-803	-823	-844	-803	-886
long-term negative shift	109	108	108	109	153
medium-term positive shift	-1,553	-1,592	-1,632	-1,553	-1,716
medium-term negative shift	109	108	108	109	153
worst-case scenario	-6,924	-7,137	-7,349	-6,924	-7,800

In thousands of euro	Change in equity				
	from 31/03/2019 to 31/12/2019				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	-3,292	-3,946	-5,414	-2,794	-5,414
negative parallel shift	1,195	124	-7	1,195	28
parallel shock up	-3,282	-3,933	-5,398	-2,781	-5,398
parallel shock down	1,195	124	-7	1,195	28
steepener shock	917	38	-82	917	-82
flattener shock	-1,701	-1,401	-1,863	-668	-1,863
short shock up	-2,596	-2,701	-3,378	-1,997	-3,378
short shock down	1,198	125	-8	1,198	33
worst-case scenario	-3,292	-3,946	-5,414	-2,794	-5,414

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	950
minimum	386
maximum	2,564

With regard to the distribution of price VaR during the year, the average VaR for each month in 2019 is presented below.

January	1,939
February	1,192
March	595
April	460
May	732
June	952
July	569
August	1,086
September	1,001
October	1,208
November	524
December	1,179

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 254 observations, while there were no days on which theoretical losses exceeded VaR.

2.2 Interest rate risk and price risk - Bank book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

As already described in section 2.1 above, the internal processes for the measurement, control and management of the bank book interest rate risk also uses two distinct monitoring systems:

– an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
– an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

More specifically, the daily calculation of VaR is used to monitor the financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the qualitative information provided regarding the «Interest rate and price risk - portfolio for supervisory purposes».

The analysis of sensitivity using strategic ALM methodologies is used to monitor the interest rate risk deriving from fair value and the interest rate risk deriving from cash flows: The principal sources of interest rate risk deriving from fair value are funding transactions (especially demand deposits, but with appropriate modelling of the maturities) and fixed-rate lending (principally long-term loans and fixed-yield securities); the interest rate risk deriving from cash flows is also originated by other sight or indexed rate assets and liabilities.

The incremental improvements made to the internal processes for the management and control of interest-rate risk have expanded the set of risk indicators monitored.

Following the related resolution adopted by the Board of Directors on 20 December, the system of indicators used from 31 December 2019 revolves around a first set of summary metrics comprising four «complementary» risk indicators whose respective systems of thresholds are defined by the Board of Directors in the Risk Appetite Framework, and a second set of metrics comprising two «operational» risk indicators whose limits are established by the Risks Committee, consistent with the risk appetite established by the main Board. Two indicators in the first set of metrics monitor the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «*Sensitivity Analysis in Full Evaluation*» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The other pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «*Interactive Simulation*» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «*Interactive Simulation*» method under static conditions with constant volumes in the current rates scenario. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «*Sensitivity Analysis in Full Evaluation*» method under inertial conditions, simulating the changes in the benchmark curves contained in *«Annex III – The standardised interest rate shock scenarios»* of the *«Guidelines on the management of interest rate risk arising from non-trading book activities»* published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «*Interactive Simulation*» method under static conditions, simulating the changes in the benchmark curves contained in *«Annex III – The standardised interest rate shock scenarios»* of the *«Guidelines on the management of interest rate risk arising from non-trading book activities»* published on 19 July 2018 by the European Banking Authority; The denominator is also calculated using the «*Interactive Simulation*» method under static conditions with constant volumes in the current rates scenario. These indicators are monitored monthly. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports the Sensitivity Analysis in Full Evaluation method for analysing the sensitivity of equity and the Interactive Simulation method for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date. Specifically, the first methodology is used to determine the flows of principal and interest originated by the individual assets and liabilities held in the bank book applying, where necessary, the coupon rate for each instrument or, if that is not predetermined, the market curve associated with the risk factor to which the rate is indexed. Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then, shocks to the benchmark curves are simulated, reflecting different scenarios that would cause market rates to change. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed discounted value» of each asset and liability.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity caused by each scenario expressing movements in market rates, by summing for each operation in the bank book the change in present value obtained above.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling is mortgages and unsecured loans in euro granted by the Parent Company. In these operations, the borrower has an early settlement option with respect to the contractual maturity of the loan, which can be exercised at any time.

The adoption of a specific scenario-dependent model is the best way to address this phenomenon, known as «*prepayment*», which is negatively correlated with the level of interest rates. This model is defined using a historical series of a suitable length in terms of time, containing prepayments and other variables that can be used to differentiate behaviours.

The above analyses are supplemented by the results of applying the Interactive Simulation analysis methodology that, following a shock to the market rate curves, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book, made up of both debit and credit items that generate the interest margin, is subdivided between transactions that are partly sensitive to changes in interest rates and those that are entirely sensitive. The first type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income up to the natural expiry of the transaction, but is impacted at the time of renewal; the second, represented by variable-rate transactions, is conditioned by changes in rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each transaction following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market rates.

The measurements of interest-rate risk using fair value and using cash flows both consider any maximum cap or minimum floor on the coupon rate associated with bank book activities. The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», excluding the investments that service employees' pension and similar obligations and real estate funds. The price risk on foreign currency mutual funds also includes exchange risk.

The strategies for governing interest-rate risk include, as part of the annual stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of the bank book;
- the performance of the total net interest income generated by the bank book and the trading portfolio.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Interactive Simulation» methods explained above, stress tests are carried out by performing simulations that include volume changes and the use of a set of scenarios regarding rate trends aimed at identifying the trend in the interest rate risk profile under particularly adverse market conditions.

The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**789,926**	**144,955**	**11,234**	**42,397**	**71,246**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	789,926	144,955	11,234	42,397	71,246	–	–	–
- Options	789,926	144,955	11,234	42,397	71,246	–	–	–
+ Long positions	394,963	134,219	697	–	–	–	–	–
+ Short positions	394,963	10,736	10,537	42,397	71,246	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**768,246**	**209,600**	**17,051**	**161,285**	**83,438**	**86**	**522**	**–**
+ Long positions	148,131	209,600	17,051	161,285	83,438	86	522	–
+ Short positions	620,115	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

With reference to the assets and liabilities that generate the interest margin - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «*Annex III – The standardised interest rate shock scenarios*» of the «*Guidelines on the management of* *interest-rate risk arising from non-trading book activities*» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «*Supervisory Outlier Test*», replaced the previous minimum level of 0%.

	Change in interest margin				
In thousands of euro	**from 31/01/2019 to 28/02/2019**				**31/12/2018**
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	75,913	72,242	68,571	75,913	50,909
negative parallel shift	680	622	564	680	490
flat rotary shift	145,009	137,499	129,989	145,009	96,649
steep rotary shift	887	838	789	887	1,074
short-term positive shift	150,656	143,084	135,511	150,656	101,758
short-term negative shift	887	838	789	887	1,074
long-term positive shift	6,502	6,451	6,401	6,502	4,917
long-term negative shift	-2	-34	-67	-2	-106
medium-term positive shift	12,737	12,650	12,562	12,737	9,975
medium-term negative shift	9	-24	-57	9	-104
worst-case scenario	-2	-34	-67	-2	-106

	Change in interest margin				
In thousands of euro	**from 31/03/2019 to 31/12/2019**				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	15,773	111,676	15,773	137,697	93,080
negative parallel shift	-13,169	-868	-13,169	682	557
parallel shock up	16,400	112,306	16,400	138,566	93,768
parallel shock down	-13,169	-867	-13,169	682	558
steepener shock	-8,593	-63	-8,593	1,116	763
flattener shock	13,335	89,731	13,335	114,777	73,617
short shock up	16,512	110,640	16,512	137,775	91,667
short shock down	-12,654	-749	-12,654	733	733
worst-case scenario	-13,169	-868	-13,169	682	557

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value assets and liabilities items.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «*Annex III – The standardised interest rate shock scenarios*» of the «*Guidelines on the management of interest-rate risk arising from non-trading book activities*» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%.

	Change in equity				
In thousands of euro	**from 31/01/2019 to 28/02/2019**				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	-22,175	-22,206	-22,238	-22,175	-25,983
negative parallel shift	-82,601	-83,340	-84,080	-82,601	-85,390
flat rotary shift	-116,546	-117,677	-118,807	-116,546	-122,231
steep rotary shift	-93,490	-94,207	-94,924	-93,490	-88,359
short-term positive shift	-87,041	-87,361	-87,680	-87,041	-97,541
short-term negative shift	-107,125	-107,530	-107,936	-107,125	-108,186
long-term positive shift	78,418	78,508	78,418	78,597	78,785
long-term negative shift	-84,295	-85,015	-85,734	-84,295	-87,048
medium-term positive shift	207,424	208,398	207,424	209,372	207,420
medium-term negative shift	-107,008	-107,446	-107,884	-107,008	-108,919
worst-case scenario	-116,546	-117,677	-118,807	-116,546	-122,231

	Change in equity				
In thousands of euro	**from 31/03/2019 to 31/12/2019**				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	-10,738	176,447	-10,738	311,821	100,241
negative parallel shift	-97,725	-62,892	-131,378	5,869	-125,534
parallel shock up	-7,821	179,329	-7,821	315,005	103,253
parallel shock down	-97,725	-62,892	-131,378	5,869	-125,534
steepener shock	98,151	111,004	85,702	150,728	85,702
flattener shock	-151,049	-37,647	-151,049	43,254	-54,670
short shock up	-76,888	44,391	-76,888	86,678	36,364
short shock down	7,761	-24,054	-45,053	7,761	-40,021
worst-case scenario	-151,049	-62,892	-151,049	5,869	-125,534

With respect to fixed-yield securities classified as «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income» and «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	37,855
minimum	19,469
maximum	63,210

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	52,078
February	50,268
March	42,191
April	28,342
May	30,187
June	44,332
July	44,194
August	47,480
September	42,757
October	26,834
November	23,987
December	22,849

With reference to the fixed-yield securities included in the «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», the number of days in which actual losses exceeded the VaR was 1 out of 254 observations for Italian government securities and 8 out of 254 observations for the other fixed-yield securities.

The same number of overruns were observed with reference to the theoretical losses on Italian government securities, while the number of overruns on the other fixed-yield securities was 7.

Price risk

With reference to the closing date, we report below all the VaR figures of variable-yield securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	1,408
Mutual funds	1,313
Total AFS and CFV	**2,262**
Equity investments	**9,109**

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	2,746
minimum	1,314
maximum	4,160

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	3,629
February	3,163
March	2,443
April	1,866
May	2,247
June	2,831
July	2,888
August	3,494
September	2,993
October	2,894
November	2,106
December	2,359

With reference to the perimeter indicated above, the theoretical losses exceeded VaR once out of 254 observations, while there were no overruns by actual losses.

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies, if any, and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which reference is made.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described in section 2.1 above.

At the balance sheet date, the following financial instruments exposed to exchange rate risk are covered by the VaR model: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc of the former French colonies of West Africa, the African Financial Community of Central Africa, the Kenyan shilling, the new Bulgarian lev, the Peruvian new sol, the Bahraini and Jordan dinar, the Oman riyal and the Qatari riyal) shown in table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan writedowns. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations of the Exchange Centre.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**488,609**	**73,026**	**11,497**	**487,096**	**13,948**	**30,687**
A.1 Fixed-yield securities	–	–	–	–	–	–
A.2 Variable-yield securities	32,144	–	–	144,901	–	–
A.3 Loans to banks	117,558	71,493	7,800	5,118	13,948	30,262
A.4 Loans to customers	338,907	1,533	3,697	337,077	–	425
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**5,342**	**1,493**	**803**	**5,583**	**280**	**1,754**
C. **Financial liabilities**	**448,732**	**74,958**	**12,772**	**351,300**	**14,175**	**31,650**
C.1 Due to banks	159,757	11,141	705	274,469	1,358	4,693
C.2 Due to customers	288,975	63,817	12,067	76,831	12,817	26,957
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**10,785**	**2**	**5**	**39**	**21**	**3**
E. **Financial derivatives**	**1,572,304**	**265,376**	**63,173**	**67,545**	**5,942**	**89,276**
- Options	13,007	598	–	–	–	–
+ long positions	6,509	299	–	–	–	–
+ short positions	6,498	299	–	–	–	–
- Other derivatives	1,559,297	264,778	63,173	67,545	5,942	89,276
+ long positions	777,383	132,426	31,542	32,560	2,954	44,640
+ short positions	781,914	132,352	31,631	34,985	2,988	44,636
Total assets	**1,277,843**	**207,244**	**43,842**	**525,239**	**17,182**	**77,081**
Total liabilities	**1,247,929**	**207,611**	**44,408**	**386,324**	**17,184**	**76,289**
Net balance (+/-)	**29,914**	**(367)**	**(566)**	**138,915**	**(2)**	**792**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	0
Variable-yield securities	714
Net balance between other assets and liabilities	34
Financial derivatives	36
- Options	0
+ Long positions	43
+ Short positions	43
- Other derivatives	36
+ Long positions	5,353
+ Short positions	5,385
Total transactions table 1	**706**
- Interest Rate Swap	4
+ Long positions	2,880
+ Short positions	2,876
Total	**710**

Details of the principal currencies

US Dollars	30
Sterling	1
Japanese Yen	5
Swiss Francs	706
Canadian Dollars	0
Other currencies	0
Total	**710**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	778
minimum	152
maximum	1,117

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	850
February	737
March	652
April	661
May	760
June	743
July	713
August	829
September	897
October	970
November	797
December	711

Section 3 *Derivative instruments and related hedging policy*

3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

Underlying assets/Type of derivative	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,908,858**	**–**	**–**	**–**	**3,226,858**	**–**
a) Options	–	–	37,936	–	–	–	24,346	–
b) Swaps	–	–	1,870,922	–	–	–	3,202,512	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**19,500**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	19,500	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**2,019,495**	**–**	**–**	**–**	**2,208,494**	**–**
a) Options	–	–	26,974	–	–	–	25,625	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	1,992,521	–	–	–	2,182,869	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**34,495**	**–**	**–**	**–**	**9,368**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**3,982,348**	**–**	**–**	**–**	**5,444,720**	**–**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

Underlying assets/Type of derivative	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	8,407	–	–	–	469	–
b) Interest rate swap	–	–	23,258	–	–	–	30,272	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forwards	–	–	11,291	–	–	–	13,390	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	525	–	–	–	261	–
Total	**–**	**–**	**43,481**	**–**	**–**	**–**	**44,392**	**–**
2. **Negative fair value**								
a) Options	–	–	464	–	–	–	432	–
b) Interest rate swap	–	–	21,958	–	–	–	28,613	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forwards	–	–	10,934	–	–	–	13,234	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	510	–	–	–	253	–
Total	**–**	**–**	**33,866**	**–**	**–**	**–**	**42,532**	**–**

The fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,678,982	2,432	227,444
- positive fair value	–	18,029	15	5,272
- negative fair value	–	21,958	–	50
2) **Variable-yield securities and stock indices**				
- notional value	–	8,000	–	11,500
- positive fair value	–	7,945	–	160
- negative fair value	–	–	–	190
3) **Currency and gold**				
- notional value	–	1,602,191	15,878	401,427
- positive fair value	–	6,953	–	4,583
- negative fair value	–	9,657	253	1,249
4) **Commodities**				
- notional value	–	18,075	–	16,421
- positive fair value	–	335	–	190
- negative fair value	–	191	–	318
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlyings/residual life	Within 12 months	1 to 5 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	263,337	1,590,628	54,892	1,908,858
A.2 Financial derivatives on variable-yield securities and stock indices	–	11,500	8,000	19,500
A.3 Financial derivatives on currency and gold	2,012,430	7,065	–	2,019,495
A.4 Financial derivatives on commodities	33,889	606	–	34,495
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2019	**2,309,656**	**1,609,799**	**62,892**	**3,982,348**
Total 31/12/2018	**3,601,475**	**1,768,882**	**74,363**	**5,444,720**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,678,982	2,432	227,444
- net positive fair value	–	18,029	15	5,272
- net negative fair value	–	21,958	–	50
2) **Variable-yield securities and stock indices**				
- notional value	–	8,000	–	11,500
- net positive fair value	–	7,945	–	160
- net negative fair value	–	–	–	190
3) **Currency and gold**				
- notional value	–	1,602,191	15,878	401,426
- net positive fair value	–	6,953	–	4,583
- net negative fair value	–	9,657	253	1,249
4) **Commodities**				
- notional value	–	18,075	–	16,421
- net positive fair value	–	335	–	190
- net negative fair value	–	191	–	318
5) **Other**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
2) **Sale of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–

Section 4 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank’s overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself firstly in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to 2.7 billion euro at 31 December 2019.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality bonds: most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds; overall, the portfolio is highly liquid as it mostly comprises instruments that can easily be sold on the market or used, when liquidity is needed, either in repurchase agreements with banks or in refinancing operations arranged with the European Central Bank if, as in most cases, the securities held are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA. CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis.

Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following twelve months, using operational treasury and similar data and the counterbalancing capacity. Similar information is made available to the Supervisory Authorities every week, focusing on the time horizon up to 3 months. In addition, contingency indicators are calculated every day in order to identify, on a timely basis, any internal or external tensions affecting operational liquidity. Operational liquidity is also subjected to specific stress tests every month, in order to verify the ability of the Group to survive, using expected cash flows and its counterbalancing capacity, unfavourable endogenous and exogenous events that increase in the liquidity requirement following the drawdown of committed lines of credit, downgrades of the Parent Company or the Italian State, or potential combinations of adverse events with cumulative effects.

The Group is in fact able to survive independently such serious adverse events beyond the target time horizon established by the Board of Directors.

The long-term liquidity position is also monitored monthly, with no time limits, by reference to a dedicated diary of due dates and set of metrics designed to check the structural equilibrium of the consolidated balance sheet and measure specific aspects, including the concentration of funding.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively; the same metrics are also quantified under stressed conditions, simulating the unfavourable events described above, in order to evaluate the potential risks that would emerge in those circumstances and prepare possible countermeasures. As required by the supervisory regulations with regard to the so-called Additional Liquidity Monitoring Metrics, every month further risk metrics are monitored that address, among other factors, the concentration of funding risk and its cost and the composition of our counterbalancing capacity. In addition, we also quantify the intraday liquidity risk indicators envisaged by the Basel Committee on banking supervision.

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**4,486,230**	**1,059,079**	**928,685**	**2,553,879**	**1,143,341**	**952,554**	**1,818,754**	**13,430,559**	**6,639,992**	**124,292**
A.1 Government securities	–	–	640	1,200	10,059	6,671	207,713	5,781,967	1,669,000	–
A.2 Other fixed-yield securities	119	–	80	1,292	213,282	10,326	157,075	538,500	726,016	–
A.3 Mutual funds	429,459	–	–	–	–	–	–	–	–	–
A.4 Loans	4,056,652	1,059,079	927,965	2,551,387	920,000	935,557	1,453,966	7,110,092	4,244,976	124,292
- Banks	50,611	160,136	30,454	21,619	10,314	21,254	180,048	1,085,000	–	80,548
- Customers	4,006,041	898,943	897,511	2,529,768	909,686	914,303	1,273,918	6,025,092	4,244,976	43,744
B. **Cash liabilities**	**25,096,087**	**544,474**	**4,736**	**25,551**	**561,621**	**311,269**	**156,357**	**5,162,186**	**384,383**	**–**
B.1 Deposits and current accounts	24,935,568	32,471	2,880	23,618	535,881	277,924	21,861	2,940	–	–
- Banks	196,423	–	–	–	–	–	–	–	–	–
- Customers	24,739,145	32,471	2,880	23,618	535,881	277,924	21,861	2,940	–	–
B.2 Fixed-yield securities	91,688	31	249	1,820	14,066	26,083	112,852	2,329,517	243,578	–
B.3 Other liabilities	68,831	511,972	1,607	113	11,674	7,262	21,644	2,829,729	140,805	–
C. **Off-balance sheet transactions**	**6,466,304**	**267,497**	**207,231**	**2,946,637**	**750,701**	**1,308,273**	**1,994,377**	**296,114**	**653,704**	**–**
C.1 Financial derivatives with exchange of capital	–	258,303	203,932	877,682	310,616	315,687	86,412	6,068	–	–
- Long positions	–	132,678	101,982	438,878	155,314	157,860	43,296	3,108	–	–
- Short positions	–	125,625	101,950	438,804	155,302	157,827	43,116	2,960	–	–
C.2 Financial derivatives without exchange of capital	30,829	–	–	–	–	–	–	–	–	–
- Long positions	19,675	–	–	–	–	–	–	–	–	–
- Short positions	11,154	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Commitments to make loans	6,435,472	9,194	3,299	2,068,955	440,085	992,586	1,907,965	290,046	653,704	–
- Long positions	34,819	9,194	3,299	2,068,955	440,085	992,586	1,907,965	290,046	653,704	–
- Short positions	6,400,653	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes.

Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**118,046**	**194,848**	**139,736**	**95,828**	**91,328**	**42,515**	**29,848**	**107,609**	**146,409**	**4,553**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	35,145	-	-	-	-	-	-	-	-	-
A.4 Loans	82,901	194,848	139,736	95,828	91,328	42,515	29,848	107,609	146,409	4,553
- Banks	54,762	52,394	84,802	51,206	667	2,071	492	-	-	-
- Customers	28,139	142,454	54,934	44,622	90,661	40,444	29,356	107,609	146,409	4,553
B. **Cash liabilities**	**559,784**	**186,875**	**115,132**	**46,614**	**11,306**	**8,179**	**4,399**	**883**	**439**	**-**
B.1 Deposits and current accounts	559,784	186,819	115,132	46,614	11,306	8,128	4,298	120	-	-
- Banks	127,795	175,065	113,162	35,799	375	-	-	-	-	-
- Customers	431,989	11,754	1,970	10,815	10,931	8,128	4,298	120	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	56	-	-	-	51	101	763	439	-
C. **Off-balance sheet transactions**	**34,909**	**256,905**	**202,403**	**874,421**	**313,708**	**315,416**	**93,062**	**6,057**	**-**	**-**
C.1 Financial derivatives with exchange of capital	34,909	256,905	202,403	874,421	313,708	315,416	93,062	6,057	-	-
- Long positions	-	124,949	101,201	437,211	156,854	157,711	46,533	3,030	-	-
- Short positions	-	131,956	101,202	437,210	156,854	157,705	46,529	3,027	-	-
C.2 Financial derivatives without exchange of capital	23,473	-	-	-	-	-	-	-	-	-
- Long positions	12,110	-	-	-	-	-	-	-	-	-
- Short positions	11,363	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	1,780	-	-	-	-	-	-	-	-	-
- Long positions	890	-	-	-	-	-	-	-	-	-
- Short positions	890	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	9,656	-	-	-	-	-	-	-	-	-
- Long positions	4,828	-	-	-	-	-	-	-	-	-
- Short positions	4,828	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

To ensure that the Bank has a system of risk management that reflects the changing structure of the business as much as possible, it has adopted a system of operational risk governance and management that is in continuous refinement, with a view to adopting the most suitable technical-organisational solutions to prevent and/or mitigate critical issues involved in its operations.

With reference to the governance of operational risks, the Risk Control function is responsible for defining methodologies and coordinating execution of the management and control processes, as well as for preparing dedicated information flows for the competent business functions and bodies, in order to ensure full knowledge of the actual and potential risks faced by the Bank and, therefore, their governability.

The qualitative and quantitative system adopted for managing operational risk is made up of the following components:

- a process of loss data collection (LDC), designed for the accurate detection of risk events that generate losses and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred;
- a Risk Self Assessment process (RSA), aimed at investigating the perception of business experts regarding the potential risks in which the Bank could incur in corporate operations, as well as to gather indications on the subject of interventions, proposed or implemented, for the prevention and/or mitigation of risk situations;
- a process for measuring operational risk for regulatory purposes that is focused on adoption of the Traditional Standardised Approach (TSA), which envisages the application of different coefficients for each of the business lines making up the most recent three annual observations of the Significant Indicator, calculated in compliance with EU regulations;
- a process for measuring operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational VaR - OpVaR).

Overall, consistent with the best practices promoted at regulatory level, these processes assist monitoring of the historical and prospective exposure to operational risk and related trends, as well as the identification, guidance and control of coordinated action to prevent, mitigate and, if necessary, transfer risk.

In the context of a process that seeks the continual improvement of controls, the model adopted for the control of operational risk has been refined carefully in order to consolidate the methodology and enhance its practical applications. Special attention has been dedicated to the analysis of the «boundary» events between credit and operational risks, with the start of a structured process to record and classify the related economic manifestations, as well as to revising how losses in suspense or recorded in transit accounts are recognised and processed, with a broadening of the concept of «operational loss».

With regard to the measurement of operational risk, enhanced techniques finalised during the year now calculate this risk with the inclusion of specific correlations that underpin the metrics already used to quantify the capital required to cover risks of this type.

Lastly, further work has been carried out to strengthen management reporting by adding new risk indicators and reshaping those already employed, with the intention of reporting more accurately the current and future exposures to operational risk.

Legal and conduct risks

Among the phenomena comprising operational risk, particular attention is paid to economic events relating to legal disputes and judicial proceedings in which the Bank is being sued, which may include cases in which financial services were not provided properly or fraud or negligence to the detriment of customers (conduct risk).

Given the special nature of these issues, the process of identifying, assessing and monitoring these risks is carried out in close and constant collaboration with the corporate departments responsible for handling legal issues and litigation.

The operational losses associated with legal and conduct risks mainly include the prudent accounting provisions and any related increases or reductions recorded with regard to proceedings initiated by the Bank, or in which it is summoned to court, that do not directly relate to credit collection activities. These provisions are in fact subject to periodic review following favourable rulings obtained by the Bank on the settlement of damages and/or based on indications deriving from the outcome of disputes involving other operators within the banking system.

The losses associated with legal and conduct risks also include the expenses incurred on the services of external lawyers and the payments made when court cases are lost.

IT risk

Specific attention is dedicated to managing the risks associated with the use of information and communications technology that might compromise the availability, completeness and accuracy, accessibility and security of technological infrastructures and data. Such use is monitored by the specialist, dedicated functions within the Organizational and IT systems department.

The approach adopted for the management of IT risk, in line with the general structure of operational risk management, provides, on the one hand, for the collection and classification of IT incidents, or events that have occurred as a result of errors or failures in technological systems (quantitative approach); and, on the other hand, for the assessment of threats inherent in the IT system in order to identify areas where risk could potentially occur and consequently quantify the gravity of the situation (qualitative approach).

In this regard, the Bank paid particular attention to monitoring and minimising the risks associated with so-called cyber security, or to violations or attempted breach of IT security, aimed in most cases at carrying out fraudulent payment instructions.

Specific measures are adopted for the processing and protection of personal data, in compliance with the related privacy regulations, as well as to tackle emergency situations and business interruptions via the definition of operational continuity plans and disaster recovery measures that ensure the timely restoration of systems and procedures.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the operational losses connected with the adoption of improper commercial and market practices and/or failure to respect the professional commitments made to customers, as evidenced most clearly by the prudent provisions made to cover legal disputes and business conduct claims.

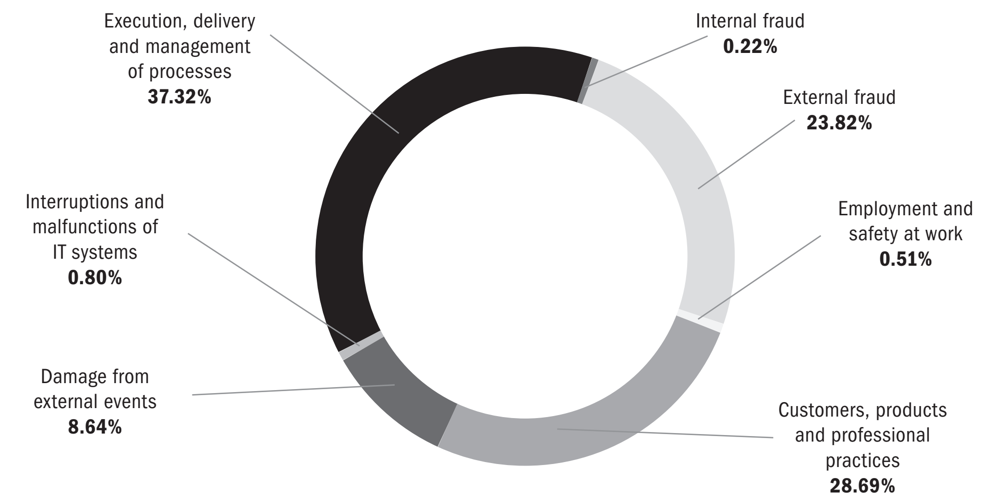
Total operational losses also include the effect of errors in the performance of daily activities, especially in the execution and completion of transactions or in the context of relations with counterparties other than customers, as well as those deriving from exogenous events, such as ATM robberies / break-ins, counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by specific insurance policies.

The following chart shows the operational losses recognised over the past five years (2015 – 2019) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event type):

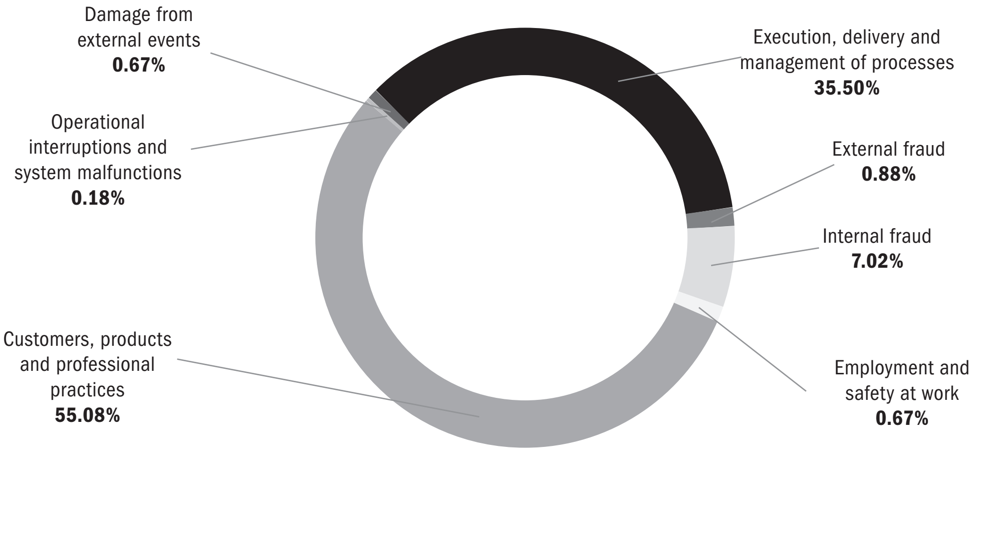
- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/ third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices – Events due to non-compliance/ negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events – Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions – Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes – Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2015 - 31/12/2019)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



Section 6 *Sovereign risk*

Information on exposure to sovereign debtors

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2019 amounted to € 8,363 million and was structured as follows:

a) Italian Government securities: € 5,941 million;

b) Securities of other issuers: € 1,836 million;

c) Loans to government departments: € 78 million;

d) Loans to state-owned or local government-owned enterprises: € 350 million;

e) Loans to other public administrations and miscellaneous entities: € 158 million,

PART F *Information on equity*

Section 1 *Capital*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for adequate capital was made even more evident by the crisis ten years ago and the actions of the Supervisory Authorities, which now operate on a transnational basis.

The economic/financial crisis ten years ago brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Supervisory Bodies are focusing more and more on the capital adequacy of banks, seeking to ensure that it is proportionate to the overall degree of risk accepted.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

Notably, the issues that have arisen in the financial markets, especially with regard to lending to customers, have adversely affected the profitability of banks and, consequently, the self-funding that in the past had always contributed significantly to their capitalisation. The ongoing difficulties experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The Extraordinary Meeting held on 27 April 2019 had authorised the Board of Directors to increase capital for payment, with the exclusion of pre-emption rights, by a maximum of € 40 million in order to service the acquisition of the majority of the share capital of Cassa di Risparmio Cento S.p.a.. On 30 October 2018, Banca Popolare di Sondrio, Fondazione Cassa di Risparmio di Cento and Holding CR Cento Spa had signed the final contract for the acquisition of the majority of the share capital of Cassa di Risparmio di Cento. This acquisition was not completed however because, as communicated to the market on 17 October 2019, the conditions precedent were not satisfied.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Liabilities, Section 12 of these notes to the financial statements.

B.1 Equity: breakdown

Items	31/12/2019	31/12/2018
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**990,904**	**885,551**
- retained earnings	990,904	885,551
a) legal	356,292	320,525
b) statutory	537,470	512,200
c) treasury shares	30,000	30,000
d) other	67,142	22,826
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**(25,322)**
6. **Valuation reserves**	**12,132**	**(16,196)**
- Variable-yield securities measured at fair value through other comprehensive income	43,767	61,600
- Hedge of variable-yield measured at fair value through other comprehensive income		
- Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	12,844	(40,204)
- Property, equipment and investment property	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Hedging instruments (non-designated elements)		
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)		
- Actuarial profits (losses) related to defined-benefit pension plans	(44,479)	(37,592)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Profit (loss)**	**100,695**	**83,623**
Total	**2,517,571**	**2,366,820**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

	Total 31/12/2019		Total 31/12/2018	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	16,357	(3,513)	5,166	(45,370)
2. Variable-yield securities	56,914	(13,147)	65,052	(3,452)
3. Loans	–	–	–	–
Total	**73,271**	**(16,660)**	**70,218**	**(48,822)**

The 2018 has been restated to aggregate the data based on the unrealized gains and unrealized losses recognised in relation to individual securities.

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Loans
1. **Opening balance**	**(40,204)**	**61,600**	**–**
2. **Positive changes**	**57,998**	**32,979**	**–**
2.1 Increases in fair value	48,671	32,979	–
2.2 Adjustments for credit risk	244	–	–
2.3 Transfer to income statement of negative reserves from disposals	9,083	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	–	–
2.5 Other changes	–	–	–
- of which: business combinations	–	–	–
3. **Negative changes**	**(4,950)**	**(50,812)**	**–**
3.1 Reductions in fair value	(1,887)	(12,898)	–
3.2 Write-backs for credit risk	(1,780)	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(1,283)	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	(37,914)	–
3.5 Other changes	–	–	–
- of which: business combinations	–	–	–
4. **Closing balance**	**12,844**	**43,767**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 44.479 million. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

2.1 Own funds

A. QUALITATIVE INFORMATION

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirement Regulation - CRR) and Directive 2013/36 EU (Capital Requirement Directive - CRD IV) came into force on 1 January 2014, adopting in the European

Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

Own funds

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

– Tier 1 Capital;
– Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

– Common Equity Tier 1 - CET1;
– Additional Tier 1 – AT1.

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

– Share capital;
– Share premium reserve;
– Retained earnings;
– Valuation reserves - OCI;
– Other reserves;
– Previous CET 1 instruments subject to transitional instructions (grandfathering);
– Prudential filters;
– Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

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

– Equity instruments and related premiums;
– Previous AT1 instruments subject to transitional instructions (grandfathering);
– Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

– Equity instruments, subordinated loans and related premiums;
– Previous T2 instruments subject to transitional instructions (grandfathering);
– Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016 larger banks have to include in or deduct from CET 1, respectively, their unrealised gains and losses arising from exposures to EU central administration classified in the portfolio measured at FVOCI (formerly AFS). The transition period prior to supervisory recognition of profits and losses on securities allocated to the portfolio of «Financial assets measured at fair value through other comprehensive income» ended at the start of 2018, with the consequence that these amounts are now added to/deducted from CET1 capital.

Following the introduction of the new IFRS 9, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising»the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 85% in 2019 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

In May 2019, the bank received authorisation from the ECB to use its internal rating system (AIRB) to measure capital requirements on credit risk; this AIRB method was applied for the first time in the context of the prudential reports as of 30.06.2019.

B. QUANTITATIVE INFORMATION

	31/12/2019	31/12/2018
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,468,432**	**2,331,149**
of which: CET1 instruments subject to transitional arrangements	–	–
B. **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,468,432**	**2,331,149**
D. **Elements to be deducted from CET1**	**76,769**	**26,230**
E. **Transitional instructions - Impact on CET1 (+/-)**	**4,816**	**30,522**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,396,479**	**2,335,441**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**–**	**–**
of which: AT1 instruments subject to transitional instructions	–	–
H. **Elements to be deducted from AT1**	**–**	**–**
I. **Transitional instructions - Impact on AT1 (+/-)**	**–**	**–**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**–**	**–**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**487,060**	**338,782**
of which: T2 instruments subject to transitional instructions		
N. **Elements to be deducted from T2**	**10,679**	**14,715**
O. **Transitional instructions - Impact on T2 (+/-)**	**–**	**–**
P. **Total Tier 2 - T2 (M - N +/- O)**	**476,381**	**324,066**
Q. **Total Own funds (F + L + P)**	**2,872,860**	**2,659,508**

The composition of own funds takes account of the profit for the period to 30/09/2019, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which from the current year is as follows:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

With the «SREP Decision», the European Central Bank used its powers to impose compliance with the following minimum capital requirements to be maintained at a consolidated level in 2019:

- a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
- a minimum requirement of Total Capital Ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (2.25%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

Last December the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2020. The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 10%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (3%);
- a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2019, the parameters of the bank under the new disclosure regulations (phased in) are as follows:

- CET 1 Capital ratio 17.68%;
- Tier 1 Capital ratio 17.68%;
- Total Capital ratio 21.19%.

On a fully-phased basis:

- CET 1 Capital ratio 17.64%;
- Tier 1 Capital ratio 17.64%;
- Total Capital ratio 21.15%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
A. **Assets at risk**				
A.1 Credit and counterparty risk		–		–
1. Standardised approach	19,374,703	38,291,489	4,508,470	16,652,455
2. Approach based on internal ratings	23,175,504	–	7,175,975	–
2.1 Basic	–	–	–	–
2.2 Advanced	23,175,504	–	7,175,975	–
3. Securitisations	206,228	263,375	173,392	234,064
B. **Capital adequacy requirements**			–	–
B.1 Credit and counterparty risk			948,627	1,350,922
B.2 Loan adjustment risk			1,428	545
B.3 Regulation risks			–	–
B.4 Market risks			–	–
1. Standard methodology			25,252	18,827
2. Internal models			–	–
3. Concentration risk			–	–
B.5 Operational risk			–	–
1. Basic method			–	–
2. Standardised approach			109,363	107,631
3. Advanced method			–	–
B.7 Total precautionary requirements			1,084,671	1,477,925
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets			13,558,383	18,474,064
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			17.68%	12.64%
C.3 Tier 1 capital/ Risk-weighted assets (Total capital ratio)			17.68%	12.64%
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			21.19%	14.40%

PART G Operations of business divisions

Section 1 Operations realised during the year

Merger: Absorption of Prestinuova S.p.a. by Banca della Nuova Terra S.p.a.

For details of the transaction, please refer to Part G of the Notes to the consolidated financial statements at 31 December 2019.

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in Office	Expiry of Office	Emoluments for the office held in Banca Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	01/1/2019-31-12-2019	31/12/2021	248	-	-	16
STOPPANI LINO	Deputy Chairman	01/1/2019-31-12-2019	31/12/2019	135	-	-	15
PEDRANZINI MARIO ALBERTO	Director	01/1/2019-31-12-2019	31/12/2019	149	-	-	131
BIGLIOLI PAOLO	Director	01/1/2019-31-12-2019	31/12/2019	45	-	-	-
CARRETTA ALESSANDRO	Director	01/1/2019-31-12-2019	31/12/2020	44	-	-	-
CORRADINI CECILIA	Director	01/1/2019-31-12-2019	31/12/2019	46	-	-	-
CREDARO LORETTA	Director	01/1/2019-31-12-2019	31/12/2020	50	-	-	-
DEPPERU DONATELLA	Director	01/1/2019-31-12-2019	31/12/2020	46	-	-	-
FALCK FEDERICO	Director	01/1/2019-31-12-2019	31/12/2021	45	-	-	-
FERRARI ATTILIO PIERO	Director	01/1/2019-31-12-2019	31/12/2020	47	-	-	-
GALBUSERA CRISTINA	Director	01/1/2019-31-12-2019	31/12/2021	51	-	-	-
PROPERSI ADRIANO	Director	01/1/2019-31-12-2019	31/12/2020	47	-	-	-
RAINOLDI ANNALISA	Director	01/1/2019-31-12-2019	31/12/2019	54	-	-	-
ROSSI SERENELLA	Director	01/1/2019-31-12-2019	31/12/2021	46	-	-	-
TRIACCA DOMENICO	Director	01/1/2019-31-12-2019	31/12/2021	79	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	01/1/2019-31-12-2019	31/12/2020	95	-	-	8
VITALI LAURA	Serving Statutory Auditor	01/1/2019-31-12-2019	31/12/2020	71	-	-	-
ZOANI LUCA	Serving Statutory Auditor	01/1/2019-31-12-2019	31/12/2020	80	-	-	28
PEDRANZINI MARIO ALBERTO (*)	General Manager	01/1/2019-31-12-2019	-	-	90	80	944
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/1/2019-31-12-2019	-	-	54	187	924

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above.

The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.679 million have been paid. The column «Emoluments for the office»held in Banca Popolare di Sondrio includes € 0.063 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives»column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

(in thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	899	7,534	18	21	131	1,254
Statutory auditors	531	159	9	0	602	595
Management	100	1,316	1	5	475	0
Family members	2,683	13,006	55	45	1,124	14,396
Subsidiaries	3,931,390	88,964	6,554	332	2,056,756	11,237
Associated companies	671,553	339,735	3,002	253	382,926	1,525
Other	110,299	7,227	630	8	100,617	14,455

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for € 346.6 million to Alba Leasing spa; assets with other related parties include loans of € 75.2 million granted to the affiliate Release spa.

PART M *Leasing disclosures*

Section 1 *Lessee*

QUALITATIVE INFORMATION

See Part A – Accounting policies – Other aspects for detailed information about the application of IFRS 16. Based on the new standard, Banca Popolare di Sondrio has analysed the relevant contracts and grouped them into three separate categories:

a) buildings, which are the most significant group;

b) cars;

c) other types, including the rental of IT equipment and parking spaces with an immaterial effect.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. Bank policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers. Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with non-indexed monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the bank e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the bank;
- extension and termination options: contracts signed by the bank generally envisage giving 6 months' notice of termination. The bank is required to pay 35% of the outstanding instalments if car leases are terminated early, while the lease instalments on contracts for IT equipment must be paid in full, regardless of any early termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantee of residual value: the bank does not guarantee residual values;
- leases not yet signed: the bank has not made any lease commitments that might be considered material for disclosure purposes;
- sale and leaseback transactions: the bank is not party to transactions of this type.

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 8.1 - 8.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.2 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 215 million, while lease liabilities total 216 million.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

As indicated in Part A of the financial statements, the Bank applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to euro 83,520 in 2019.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

Asset / Amount	FTA right-to-use assets	Depreciation	Other changes	Carrying amount at 31.12.2019
Buildings*	233,998	(20,603)	1,495	214,890
Cars	8	(10)	49	47
Other types	214	(89)	85	210
	234,220	**(20,702)**	**1,629**	**215,147**

* Inc. finance leases pursuant to IAS 17.

Section 2 Lessor

QUALITATIVE INFORMATION

The bank is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

See Part C - Income statement, table 14.2 (Other operating income: breakdown) for information about the other income deriving from operational leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	31/12/2019
Time band	Lease payments to be received
Within 12 months	629
1 to 2 years	616
2 to 3 years	604
3 to 4 years	593
4 to 5 years	583
Over 5 years	1,434
Total	**4,459**

3.2 Other information

No other information to be reported.

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations);

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Banca della Nuova Terra Spa, Sinergia Seconda srl, Pirovano Stelvio spa.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2019	Accumulated depreciation as 31/12/2019	Net book value as of 31/12/2019
ABBADIA LARIANA - Via Nazionale,140/A	813,504	0	0	0	813,504	451,495	362,009
ABBIATEGRASSO - Via S, Maria - Ang P, Garibaldi	2,261,103	0	0	0	2,261,103	409,066	1,852,037
ALBIATE - Via Trento,35	661,052	0	0	0	661,052	402,471	258,581
APRICA - Corso ROME,140	450,766	0	356,355	146,929	954,049	663,342	290,707
ARDENNO - Via Libertà,24	561,355	0	0	0	561,355	395,755	165,600
BERBENNO DI VALTELLINA - Via Raneè,542	18,754,004	0	0	99,417	18,853,421	7,142,895	11,710,526
BERGAMO - Via Broseta,64/B	3,794,327	0	0	0	3,794,327	1,413,699	2,380,628
BERGAMO - Via G, D'alzano,5	2,324,744	0	0	0	2,324,744	550,021	1,774,723
BERGAMO - Via Ghislandi Vittore,4	1,288,525	0	0	0	1,288,525	212,607	1,075,918
BONATE SOTTO - Via Vittorio Veneto,37/A	765,114	0	0	0	765,114	353,252	411,862
BORMIO - Via ROME,64	439,238	46,481	573,267	136,524	1,195,510	335,825	859,685
BORMIO - Via ROME angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,789,512	1,840,115
BRENO - Piazza Ronchi,4	1,529,470	0	0	87,467	1,616,937	945,945	670,992
BRESCIA - Via Crocifissa di Rosa,1	1,295,753	0	0	0	1,295,753	19,436	1,276,317
BRESCIA ag,4 - Via Fratelli Ugoni,2	1,031,619	0	0	0	1,031,619	46,423	985,196
CAMOGLI - Via Cuneo,9	220,960	0	0	0	220,960	23,201	197,759
CHIAVENNA - Via Dolzino,67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,397,441	1,064,848
CHIESA VALMALENCO - Via ROME,138	800,867	17,560	664,795	133,250	1,616,472	774,934	841,537
COLICO - Piazza Cavour,11	177,749	0	0	96,488	274,237	274,237	0
COLICO - Via Nazionale,27	6,758,233	0	0	0	6,758,233	1,899,246	4,858,987
COMO - Via Giulini,12	1,370,193	0	0	0	1,370,193	632,899	737,294
COMO - Viale Innocenzo,XI 71	4,403,823	0	0	0	4,403,823	1,204,916	3,198,907
DARFO BOARIO TERME - Corso Italia,10/12	1,086,632	0	0	0	1,086,632	759,029	327,603
DARFO BOARIO TERME - Corso Italia,77	76,000	0	0	0	76,000	1,140	74,860
DELEBIO - Piazza S, Carpoforo,7/9	844,205	23,241	645,773	688,773	2,201,992	1,456,111	745,881
DERVIO - Via Don Invernizzi,2	1,270,219	0	0	329,276	1,599,495	1,056,240	543,255
DOMASO - Via Statale Regina,71	584,106	0	0	53,817	637,923	218,977	418,946
DONGO - Piazza V, Matteri,14	3,273,702	0	0	415,551	3,689,253	1,529,252	2,160,001
EDOLO - Piazza Martiri Della Libertà,16	1,058,736	0	0	509,161	1,567,897	1,537,229	30,668
GENOA - Via XXV Aprile,7	10,239,131	0	0	0	10,239,131	3,177,576	7,061,555
GERA LARIO - Via Statale Regina,14	292,667	0	131,677	227,733	652,077	408,852	243,225
GRAVEDONA - Piazza Garibaldi,10/12	309,900	0	0	0	309,900	69,728	240,173
GRAVEDONA - Via Tagliaferri,5	3,400,645	0	0	223,957	3,624,604	1,263,771	2,360,833
GRAVELLONA TOCE - Corso Marconi,95	1,533,857	0	0	0	1,533,857	484,502	1,049,355
GROSIO - Via ROME,67	95,936	7,230	229,791	51,484	384,441	256,057	128,385
GROSOTTO - Via Statale,73	452,237	12,911	147,146	42,099	654,393	354,273	300,120
GRUMELLO DEL MONTE - Via ROME,133	1,809,670	0	0	0	1,809,670	651,032	1,158,638
ISOLACCIA VALDIDENTRO - Via Nazionale,31	403,787	0	290,229	272,602	966,618	633,512	333,106
LECCO - Corso Martiri della Liberazione,63/65	9,574,332	0	351,191	2,124,557	12,050,080	8,040,145	4,009,935
LECCO - Via Galandra,28	168,623	0	0	41,959	210,582	176,889	33,693
LECCO - Viale Monte Grappa,18	999,369	0	0	0	999,369	489,934	509,435
LIVIGNO - Via S, Antoni 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	2,345,317	4,305,627
LODI - Via Garibaldi,23/25 - angolo Via Marsala	3,677,949	0	0	0	3,677,950	393,694	3,284,256
MADESIMO - Via Carducci,3	493,542	0	0	203,733	697,275	695,883	1,391
MANDELLO DEL LARIO - Via Statale,87	9,608	0	0	0	9,608	144	9,463
MANTUA - Corso Vittorio Emanuele,26	7,400,943	0	0	0	7,400,943	807,864	6,593,078
MANTUA - Piazza Broletto,7	1,265,944	0	0	0	1,265,944	94,946	1,170,998
MARCHIROLO - Via Cav, Emilio Busetti,7/A	1,089,018	0	0	0	1,089,018	510,177	578,842
MAZZO VALTELLINA - Via S, Stefano,18	641,635	16,010	163,550	48,833	870,027	310,636	559,391
MELEGNANO - Piazza Garibaldi,1	3,257,871	0	0	0	3,257,871	515,699	2,742,172
MILAN - Piazza Borromeo,1	38,217	0	0	213,722	251,939	212,776	39,164
MILAN - Piazzale Cimitero Monumentale,23	1,392,686	0	0	0	1,392,686	104,126	1,288,560
MILAN - Via A, Messina,22	150,000	0	0	0	150,000	42,750	107,250
MILAN - Via Canova,39 ang, Corso Sempione	1,738,854	0	0	0	1,738,854	1,008,634	730,220
MILAN - Via Compagnoni,9	51,141	0	0	6,842	57,983	57,983	0
MILAN - Via Lippi,25	53,970	0	0	1,635	55,605	55,605	0
MILAN - Via Morigi .2/A	73,590	0	0	123,930	197,520	195,545	1,975
MILAN - Via Porpora,104	5,318,962	0	0	165,381	5,484,342	2,103,335	3,381,007
MILAN - Via S,Maria Fulcorina,1	10,881,111	159,818	3,047,096	2,461,826	16,549,850	6,518,044	10,031,805
MILAN - Via S,Maria Fulcorina,11	493,165	0	0	0	493,165	473,438	19,727
MILAN - Via Sangallo,16	4,752	0	0	11,915	16,667	16,500	167
MILAN - Via Sforza,48	3,197,671	0	0	0	3,197,671	402,770	2,794,901

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2019	Accumulated depreciation as 31/12/2019	Net book value as of 31/12/2019
MILAN - Via Solari,15	422,156	0	0	0	422,156	215,300	206,857
MILAN - Viale Faenza,22	864,004	0	0	0	864,004	64,800	799,204
MONTAGNA IN VALTELLINA - Via Stelvio,30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MONZA - Via Cavallotti,5	6,371,861	0	0	0	6,371,861	302,089	6,069,772
MORBEGNO - Piazza Caduti Della Libertà,6	2,101,004	0	1,088,606	704,283	3,893,893	2,434,141	1,459,752
MORBEGNO - Via Garibaldi,81	435,688	25,823	0	56,050	517,561	462,091	55,470
MORBEGNO - Via Nani,13	54,709	0	0	17,739	72,448	72,448	- 0
MORBEGNO - Via V Alpini,172	764,418	0	0	0	764,418	488,868	275,550
MOZZO - Via G, D'annunzio,4	26,424	0	0	14,259	40,683	35,394	5,289
NOVATE MEZZOLA - Via ROME,13	1,079,528	0	251,282	89,219	1,420,028	413,795	1,006,233
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	909,793	16,799
PESCATE	1,336	0	0	0	1,336	100	1,236
PESCATE - Via ROME,98/E	494,059	0	0	0	494,059	359,200	134,859
PONTE DI LEGNO - Piazzale Europa,8	3,670,347	0	0	0	3,670,347	1,582,237	2,088,110
PONTE VALTELLINA - Piazza Della Vittoria,1	827,772	12,911	258,098	86,540	1,185,322	323,072	862,250
REGOLEDO DI COSIO VALTELLINO - Piazza S, Martino,14	132,135	0	0	0	132,135	13,874	118,261
REGOLEDO DI COSIO VALTELLINO - Via ROME,7	134,617	0	0	78,405	213,022	170,094	42,927
ROME - Piazza Filippo II Macedone,75	2,400,000	0	0	0	2,400,000	1,116,000	1,284,000
ROME - Via Della Farnesina,154	1,011,345	0	0	0	1,011,345	321,466	689,879
ROME - Via Di Propaganda Fide,27	155,625	0	350,503	88,926	595,054	595,054	0
ROME - Via Gherardi,45	2,136,068	0	0	0	2,136,068	32,041	2,104,027
ROME - Via Tagliamento,37	1,752,535	0	0	0	1,752,535	78,864	1,673,671
ROME - Via Del Tritone,207	7,451,913	0	0	0	7,451,913	558,893	6,893,020
S, CASSIANO VALCHIAVENNA - Via Spluga,108	397,672	0	0	103,093	500,765	357,342	143,422
S, PIETRO BERBENNO - Via Nazionale Ovest,110	1,288,306	22,208	328,181	122,795	1,761,491	705,429	1,056,062
S, SIRO - Via Statale Regina	467,692	0	0	0	467,692	261,540	206,152
SALÒ - Viale De Gasperi,13	1,672,029	0	0	0	1,672,029	622,204	1,049,824
SEGRATE - Via ROME,96	986,393	0	0	0	986,393	14,796	971,598
SEREGNO - Via Wagner,137/A	123,950	0	0	13,282	137,232	131,743	5,489
SESTO CALENDE - Piazza Mazzini,10	443,111	0	0	0	443,111	86,407	356,704
SONDALO - Via Zubiani,2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	404,479	113,562
SONDRIO - Corso V, Veneto,7	858,944	0	0	1,190,813	2,049,756	959,949	1,089,807
SONDRIO - Largo Pedrini,8	363,862	0	0	22,527	386,389	249,366	137,023
SONDRIO - Lungo Mallero Cadorna,24	3,441,301	0	196,254	451,249	4,088,803	1,629,146	2,459,658
SONDRIO - Piazza Garibaldi,1	16,056,897	0	0	0	16,056,897	3,710,783	12,346,115
SONDRIO - Piazza Garibaldi,16	1,563,597	351,191	7,810,125	3,142,651	12,867,565	8,221,086	4,646,479
SONDRIO - Piazzale Bertacchi,57	2,613,732	0	0	0	2,613,732	1,672,956	940,777
SONDRIO - Piazzale Tocalli - Via delle Prese	348,608	0	0	0	348,608	308,518	40,090
SONDRIO - Via Bernina,1	181,930	0	82,385	45,795	310,110	200,068	110,042
SONDRIO - Via Caimi,29	357,915	0	0	46,342	404,257	404,257	0
SONDRIO - Via Cesura,4	388,303	0	0	64,149	452,452	183,163	269,289
SONDRIO - Via Lusardi,53	247,506	0	0	0	247,506	207,905	39,601
SONDRIO - Via Pio Rajna,1	16,195	0	0	40,221	56,416	52,467	3,949
SONDRIO - Via Sertorelli,2	2,145,184	0	0	0	2,145,184	866,334	1,278,851
SONDRIO - Via Tonale,6	56,297	0	243,248	54,643	354,188	354,188	0
TALAMONA - Via Cusini,29	223,475	0	313,640	203,691	740,806	586,576	154,230
TEGLIO - Piazza S, Eufemia,2	40,150	13,944	546,700	148,165	748,959	506,172	242,787
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	101,936	37,416
TIRANO - Piazza Cavour,20	392,571	0	1,736,322	718,576	2,847,470	1,973,760	873,710
TURIN - Via XX Settembre,37	6,473,623	0	0	0	6,473,623	1,456,393	5,017,230
TRESCORE BALNEARIO - Piazza Cavour,6	1,292,789	0	0	0	1,292,789	252,094	1,040,695
TRESENDA DI TEGLIO - Via Nazionale,57	192,525	0	193,671	67,596	453,791	453,595	195
TREVISO - Corso Del Popolo,50	4,817,652	0	0	0	4,817,652	433,737	4,383,914
VALMADRERA - Via S, Rocco,31/33	1,348,914	0	0	0	1,348,914	222,571	1,126,343
VARESE - Viale Belforte,151	4,711,611	0	0	0	4,711,611	1,559,375	3,152,237
VERCELLI - Piazza Mazzucchelli,12	1,773,241	0	0	0	1,773,241	292,585	1,480,656
VERDELLINO - Largo Luigi Einaudi,1/B	336,182	0	0	0	336,182	216,838	119,345
VERONA - Corso Cavour,45/47	2,137,039	0	0	0	2,137,039	132,240	2,004,799
VILLA DI CHIAVENNA - Via ROME,39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - Traversa Foppa,25	440,816	0	0	7,651	448,467	293,034	155,433
VILLASANTA - Via Sciesa,7/9	952,438	0	0	0	952,438	579,909	372,530
VOGHERA - Via Emilia,49	1,356,771	0	0	0	1,356,771	360,415	996,356
GRAND TOTAL	**232,778,377**	**781,632**	**22,496,863**	**19,084,124**	**275,140,996**	**104,280,151**	**170,860,844**

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

	Banca Popolare di Sondrio		Group companies		Total		Grand Total
Amounts in euro	EY S.p.A.	EY Network	EY S.p.A.	EY Network	EY S.p.A.	EY Network	
Audit services	286,650	–	133,500	438,980	420,150	438,980	859,130
Certification services	162,300	–	–	–	162,300	–	162,300
Other services	–	282,880	–	39,600	–	322,480	322,480
Total	**448,950**	**282,880**	**133,500**	**478,580**	**582,450**	**761,460**	**1,343,910**

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT SPA
BANCA DELLA NUOVA TERRA SPA
SINERGIA SECONDA SRL
PIROVANO STELVIO SPA

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(in Swiss francs)

ASSETS	2019	2018
Liquid assets	730,903,289	684,933,325
Loans and receivables with banks	155,479,325	120,027,453
Loans and receivables with customers	506,656,397	448,297,339
Mortgage loans	3,991,200,561	3,752,427,668
Positive replacement value of derivative products	1,417,584	6,323,849
Financial assets	53,556,210	52,606,390
Accrued income and prepayments	7,924,234	7,027,692
Equity investments	1,190,728	1,190,728
Property, equipment and investment property	17,913,958	17,148,986
Other assets	17,172,173	23,233,955
Total assets	**5,483,414,459**	**5,113,217,385**
Total subordinated receivables	0	0

LIABILITIES	2019	2018
Due to banks	1,428,019,594	1,215,361,423
Customer deposits	3,076,487,154	3,001,172,064
Negative replacement value of derivative products	60,675,249	54,445,995
Treasury liabilities	22,580,000	22,052,000
Due to issuers of construction bonds and loans	469,100,000	415,400,000
Accrued liabilities and deferred income	22,046,598	18,617,411
Other liabilities	4,438,592	5,960,773
Reserves	6,862,383	3,766,777
Reserve for general banking risks	15,000,000	15,000,000
Share capital	180,000,000	180,000,000
Legal reserve from share capital	0	0
Legal reserve from profits	181,440,942	166,288,925
Optional retained earnings	0	0
Profit for the year	16,763,947	15,152,017
Total liabilities	**5,483,414,459**	**5,113,217,385**
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS AT 31 DECEMBER 2019 (without 2018 comparison)	2019	2018
Contingent liabilities	228,986,390	224,356,331
Irrevocable commitments	31,824,742	19,888,906
Derivative products	2,696,190,495	2,706,474,031
- Gross positive replacement value	1,417,584	6,323,849
- Gross negative replacement value	60,675,249	54,445,995
Fiduciary transactions	13,198,763	49,371,725

INCOME STATEMENT

(in Swiss francs)

	2019	2018
Interest income:		
- Interest income and discounts	69,044,105	65,232,712
- Interest income and dividends from equity investments	754,346	705,827
- Interest and dividends from trading activity	0	0
Interest expense	-16,001,700	-14,893,510
Gross interest income	**53,796,751**	**51,045,029**
Change in adjustments for loss risks and losses		
from interest-earning operations	-2,624,165	-2,182,765
Net interest income	**51,172,586**	**48,862,264**
Fee and commission income:		
- on trading in securities and investments	17,224,121	17,797,701
- on lending transactions	2,678,228	1,859,188
- on services	6,867,743	6,716,887
Fee and commission expense	-2,806,758	-2,866,388
Net fee and commission income and income from services	**23,963,334**	**23,507,388**
Profits from financial transactions and fair value option	**22,877,858**	**20,987,467**
Profit (loss) on disposal of financial assets	**-203,883**	**1,096,308**
Income from equity investments	11,374	11,374
Net proceeds from properties	131,708	147,554
Other ordinary income	1,392,765	507,315
Other ordinary charges	-996,601	-1,055,303
Other ordinary result	**335,363**	**707,248**
Operating expenses		
Personnel costs	-48,148,868	-47,628,431
Other operating expenses	-21,730,090	-21,644,967
Operating expenses	**-69,878,958**	**-69,273,398**

	2019	2018
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-3,411,799	-4,857,845
Change in provisions and other adjustments and losses	-3,219,005	38,028
Profit for the year	**21,839,379**	**19,971,152**
Extraordinary income	37,135	210,865
Extraordinary charges	-12,567	0
Change in reserve for general banking risks	0	0
Income taxes	-5,100,000	-5,030,000
Profit for the year	**16,763,947**	**15,152,017**
PROPOSED ALLOCATION OF PROFIT FOR THE YEAR (with 2018 comparison)		
Profit for the year	16,763,947	15,152,017
Retained earnings	–	–
Earnings available for allocation	**16,763,947**	**15,152,017**
The Board of Directors recommends the distribution of a dividend of 4,050,000 CHF and the allocation of 12,713,947 CHF to the legal reserve from profits.		
Retained earnings	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(in euro)

	ASSET ITEMS		31-12-2019		31-12-2018
10.	Cash and cash equivalents		2,062		1,457
30.	Financial assets measured at fair value through other comprehensive income		65,076		65,076
40.	Available-for-sale financial assets		2,330,125,724		2,345,326,438
	a) loans and receivables with banks	12,752,502		58,509,174	
	b) loans and receivables with customers	2,317,373,222		2,286,817,264	
80.	Property, equipment and investment property		7,744,123		405,172
90.	Intangible assets		386,700		210,798
100.	Tax assets		25,459,393		29,669,026
	a) current	1,749,753		5,259,024	
	b) deferred	23,709,640		24,410,002	
120.	Other assets		3,256,131		6,071,450
	TOTAL ASSETS		**2,367,039,209**		**2,381,749,417**

	EQUITY AND LIABILITY ITEMS		31-12-2019		31-12-2018
10.	Financial liabilities measured at amortised cost		2,099,070,293		2,114,653,287
	a) due to banks	2,029,755,516		2,098,057,476	
	b) customer deposits	69,314,777		16,595,811	
60.	Tax liabilities		2,784,267		8,210,947
	a) current	745,006		6,171,717	
	b) deferred	2,039,261		2,039,230	
80.	Other liabilities		20,728,391		16,750,314
90.	Post-employment benefits		2,255,181		2,324,050
100.	Provisions for risks and charges		1,605,152		4,281,700
	a) commitments and guarantees given	642,509		1,185,397	
	c) other provisions for risks and charges	962,643		3,096,303	
110.	Valuation reserves		(337,081)		(242,996)
140.	Reserves		139,741,749		131,888,245
150.	Share premium reserve		11,030,364		11,030,364
160.	Share capital		85,000,002		85,000,002
180.	Profit (loss) for the year (+/-)		5,160,891		7,853,504
	TOTAL LIABILITIES AND EQUITY		**2,367,039,209**		**2,381,749,417**

INCOME STATEMENT			31-12-2019		31-12-2018
10.	Interest and similar income		22,624,814		25,938,813
	of which: interest income calculated using the effective interest method		22,624,814		25,938,813
20.	Interest and similar expense		(2,946,662)		(3,359,005)
30.	**NET INTEREST INCOME**		**19,678,152**		**22,579,808**
40.	Fee and commission income		24,515,807		24,205,622
50.	Fee and commission expense		(3,141,050)		(3,236,864)
60.	**NET FEE AND COMMISSION INCOME**		**21,374,757**		**20,968,758**
80.	Net trading income		(5,317)		5,927
120.	**TOTAL INCOME**		**41,047,592**		**43,554,493**
130.	Net adjustments for credit risk:		(9,957,256)		(10,096,367)
	a) financial assets measured at amortised cost	(9,957,256)		(10,096,367)	
150.	**NET FINANCIAL INCOME**		**31,090,336**		**33,458,126**
160.	Administrative expenses:		(20,170,731)		(21,449,688)
	a) personnel expenses	(13,974,365)		(13,937,270)	
	b) other administrative expenses	(6,196,366)		(7,512,418)	
170.	Net accruals to provisions for risks and charges		(3,350,082)		(1,628,586)
	a) commitments and guarantees given	542,888		(1,004,885)	
	b) other net provisions	(3,892,970)		(623,701)	
180.	Depreciation and net impairment losses on property, equipment and investment property		(1,670,134)		(188,703)
190.	Amortisation and net impairment losses on intangible assets		(86,205)		(87,186)
200.	Other operating income/expense		1,826,795		1,720,914
210.	**OPERATING COSTS**		**(23,450,357)**		**(21,633,249)**
250.	Net gains (losses) on sales of investments		8,772		4,801
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**7,648,751**		**11,829,678**
270.	Income taxes		(2,487,860)		(3,976,174)
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**5,160,891**		**7,853,504**
300.	**PROFIT (LOSS) FOR THE PERIOD**		**5,160,891**		**7,853,504**

BANCA DELLA NUOVA TERRA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(in euro)

	ASSET ITEMS		31-12-2019		31-12-2018
10.	Cash and cash equivalents		244		109
40.	Financial assets measured at amortised cost		258,743,240		47,894,099
	a) loans and receivables with banks	27,631,959		15,669,489	
	b) loans and receivables with customers	231,111,281		32,224,610	
80.	Property, equipment and investment property		1,637,122		–
90.	Intangible assets		505,022		666,127
	of which:				
	- goodwill	–		–	
100.	Tax assets		15,561,167		14,318,529
	a) current	3,925,234		3,194,615	
	b) deferred	11,635,933		11,123,914	
120.	Other assets		855,800		596,880
	Total assets		**277,302,595**		**63,475,744**

	EQUITY AND LIABILITY ITEMS		31-12-2019		31-12-2018
10.	Financial liabilities measured at amortised cost		197,571,945		30,252,408
	a) due to banks	186,512,957		30,049,429	
	b) customer deposits	11,058,988		202,979	
60.	Tax liabilities		733		–
	a) current	–		–	
	b) deferred	733		–	
80.	Other liabilities		5,854,692		2,355,922
90.	Post-employment benefits		57,683		3,691
100.	Provisions for risks and charges:		581,560		174,345
	a) commitments and guarantees given	14,922		39,948	
	c) other provisions for risks and charges	566,638		134,397	
110.	Valuation reserves		(25,836)		–
140.	Reserves		40,343,237		- 3,929,291
160.	Share capital		31,315,321		31,315,321
180.	Profit (loss) for the period (+/-)		1,603,260		3,303,348
	Total liabilities and equity		**277,302,595**		**63,475,744**

INCOME STATEMENT			31-12-2019		31-12-2018
10.	Interest and similar income		7,823,762		663,317
	of which: interest income calculated using the effective interest method	7,823,762		663,317	
20.	Interest and similar expense		- 238,030		- 72,309
30.	**Net interest income**		**7,585,732**		**591,008**
40.	Fee and commission income		18,154		33,261
50.	Fee and commission expense		- 232,960		- 36,370
60.	**Net fee and commission income**		**- 214,806**		**- 3,109**
120.	**Total income**		**7,370,926**		**587,899**
130.	Net adjustments for credit risk:		- 945,676		- 143,386
	a) financial assets measured at amortised cost	- 945,676		- 143,386	
150.	**Net financial income**		**6,425,250**		**444,513**
160.	Administrative expenses:		- 5,751,215		- 2,378,113
	a) personnel expenses	- 1,712,961		- 784,231	
	b) other administrative expenses	- 4,038,254		-1,593,882	
170.	Net accruals to provisions for risks and charges		-127,934		- 124,345
	a) commitments and guarantees given	25,027		- 39,948	
	b) other net provisions	- 152,961		- 84,397	
180.	Depreciation and net impairment losses on property, equipment and investment property		- 210,492		-
190.	Amortisation and net impairment losses on intangible assets		- 161,105		- 118,804
200.	Other operating income/expense		1,936,940		2,788
210.	**Operating costs**		**- 4,313,806**		**-2,618,474**
260.	**Pre-tax profit from continuing operations**		**2,111,444**		**-2,173,961**
270.	Income taxes		- 508,184		5,477,309
270.	**Post-tax profit from continuing operations**		**1,603,260**		**3,303,348**
290.	**Profit (loss) for the period**		**1,603,260**		**3,303,348**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(in euro)

Assets	31/12/2019	31/12/2018
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**0**	**0**
Of which already called €		
B) **NON-CURRENT ASSETS**		
I - intangible assets	0	0
II - property, equipment and investment property		
1) land and buildings		
1 - owned	58,887,694	60,363,823
2) equipment and machinery		
1 - owned	22,006	40,514
Total property, equipment and investment property	***58,909,700***	***60,404,338***
III - financial assets		
1) equity investments in		
a) subsidiary companies	33,582,857	32,242,857
Total financial assets	***33,582,857***	***32,242,857***
TOTAL NON-CURRENT ASSETS	**92,492,557**	**92,647,194**
C) **CURRENT ASSETS**		
I - inventories	0	0
II - receivables		
1) loans and receivables with customers		
a) due within 12 months	24,331	18,633
2) due from subsidiary companies		
a) due within 12 months	37,222	328
5 bis) due from tax authorities		
a) due within 12 months	686,861	508,098
5 quater) due from others		
a) due within 12 months	17,128	25,862
Total receivables	***765,542***	***552,920***
III - financial assets not held as non-current assets	0	0
IV - cash and banks		
3) cash and cash equivalents on hand	0	0
Total cash and banks	***0***	***0***
TOTAL CURRENT ASSETS	**765,542**	**552,920**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS	**229**	**1,149**
TOTAL ASSETS	**93,258,328**	**93,201,264**

LIABILITIES AND EQUITY	31/12/2019	31/12/2018
A) **EQUITY**		
I - Share capital	60,000,000	60,000,000
II - Share premium reserve	0	0
III - Valuation reserves	0	0
IV - Legal reserve	2,169,841	2,134,636
V - Statutory reserves	0	0
VI - Other Reserves		
d) rounding differences on conversion to euro	0	0
VII - Reserve for cash flow hedges	0	0
VI - Reserve for treasury shares	0	0
VIII - Retained earnings	6,139,217	5,470,323
IX - Net profit for the year	533,057	704,100
X - Negative reserve for treasury shares in portfolio	0	0
TOTAL EQUITY	**68,842,115**	**68,309,058**
B) **PROVISIONS FOR RISKS AND CHARGES**		
TOTAL PROVISIONS FOR RISKS AND CHARGES	**0**	**0**
C) **POST-EMPLOYMENT BENEFITS**	**0**	**0**
D) **PAYABLES**		
6) advance payments		
a) due within 12 months	0	0
7) due to suppliers		
a) due within 12 months	158,115	138,257
9) due to subsidiary companies		
a) due within 12 months	345,098	576,166
11) due to parent companies		
a) due within 12 months	23,886,131	24,082,475
12) taxes payable		
a) due within 12 months	289	67,483
14) other payables		
a) due within 12 months	3,691	3,691
TOTAL PAYABLES	**24,393,324**	**24,868,073**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
1) accrued expenses and deferred income	22,889	24,133
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**22,889**	**24,133**
TOTAL LIABILITIES AND EQUITY	**93,258,328**	**93,201,264**

INCOME STATEMENT	31/12/2019	31/12/2018
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) residential rents	35,685	35,357
e) office rents	3,620,092	3,582,010
f) residential property expense reimbursements	357	372
g) office expense reimbursements	24,375	18,063
5) other revenues and income		
c) other revenues	31,376	4,574
TOTAL PRODUCTION VALUE	**3,711,885**	**3,640,375**
B) **PRODUCTION COSTS**		
7) for services		
c) residential property management expenses	713	1,435
d) office management expenses	419,897	329,229
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,744,502	1,703,963
14) sundry operating costs		
a) other operating costs and charges	29,355	96,639
b) non-deductible charges	302,391	299,031
TOTAL PRODUCTION COSTS	**2,496,858**	**2,430,298**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,215,027**	**1,210,077**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	389,808	131,267
d) from others	0	0
TOTAL FINANCIAL INCOME AND CHARGES	**-389,808**	**-131,267**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
PRE-TAX PROFIT (LOSS)	**825,219**	**1,078,810**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	232,986	315,808
b) IRAP (Regional business tax)	59,176	58,903
c) Deferred taxes	0	0
23) **PROFIT FOR THE YEAR**	**533,057**	**704,099**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(in euro)

ASSETS	31/12/2019	31/12/2018
B) **NON-CURRENT ASSETS**		
I Intangible assets		
3) Industrial patent rights and intellectual property rights	3,531	7,243
6) Assets in process of formation and advances	0	744
Total intangible assets	***3,531***	***7,987***
II Property, equipment and investment property		
1) Land and buildings	2,483,569	2,554,225
2) Equipment and machinery	63,390	80,904
3) Industrial and commercial equipment	22,887	25,499
4) Other assets	4,804	2,226
5) Assets under construction and advances	9,625	7,000
Total property, equipment and investment property	***2,584,275***	***2,669,854***
III Financial assets		
1) Equity investments		
b) associated companies	486,526	437,432
d-bis) other companies	1,992	1,992
Total 1) equity investments	*488,518*	*439,424*
Total financial assets	***488,518***	***439,424***
TOTAL NON-CURRENT ASSETS (B)	**3,076,325**	**3,117,265**
C) **CURRENT ASSETS**		
I Inventories		
4) Finished products and merchandise	26,803	32,023
Total inventories	***26,803***	***32,023***
II Receivables		
1) Loans and receivables with customers		
due within 12 months	35,201	17,656
Total 1) loans and receivables with customers	*35,201*	*17,656*
4) Due from parent companies		
due within 12 months	110,391	139,466
Total 4) due from parent companies	*110,391*	*139,466*
5-bis) Due from tax authorities		
due within 12 months	5,317	18,521
Total 5-bis) due from tax authorities	*5,317*	*18,521*
5-quater) Due from others		
due within 12 months	8,972	750
Totale 5-quater) due from others	*8,972*	*750*
Total receivables	***159,882***	***176,393***
IV Cash and banks		
1) Bank and post office deposits	644	311
3) Cash and cash equivalents on hand	933	14
Total cash and banks	***1,577***	***325***
TOTAL CURRENT ASSETS (C)	**188,262**	**208,741**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS (D)	**9,471**	**5,865**
TOTAL ASSETS	**3,274,057**	**3,331,871**

LIABILITIES AND EQUITY	31/12/2019	31/12/2018
A) **EQUITY**		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VI Other reserves, clearly indicated:		
Payments to cover losses	232,397	232,397
Miscellaneous other reserves	1	1
Total other reserves	***232,398***	***232,398***
IX Profit (loss) for the year	-284,123	-397,938
TOTAL EQUITY	**2,210,338**	**2,096,523**
C) **POST-EMPLOYMENT BENEFITS**		
TOTAL POST-EMPLOYMENT BENEFITS	**204,748**	**193,454**
D) **PAYABLES**		
6) Advance payments		
due within 12 months	8,540	9,209
Total 6) Advance payments	*8,540*	*9,209*
7) Due to suppliers:		
due within 12 months	42,478	63,690
Total 7) Due to suppliers	*42,478*	*63,690*
10) Due to associated companies:		
due within 12 months	10,647	7,906
Total 10) Due to associated companies	*10,647*	*7,906*
11) Due to parent companies:		
due within 12 months	736,444	898,127
Total 11) Due to parent companies	*736,444*	*898,127*
12) Taxes payable:		
due within 12 months	9,403	9,064
Total 12) Taxes payable	*9,403*	*9,064*
13) Due to social security institutions:		
due within 12 months	9,165	9,442
Total 13) Due to social security institutions	*9,165*	*9,442*
14) Other payables:		
due within 12 months	39,414	34,556
Total 14) Other payables	*39,414*	*34,556*
TOTAL PAYABLES	**856,091**	**1,031,994**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**2,880**	**9,900**
TOTAL LIABILITIES AND EQUITY	**3,274,057**	**3,331,871**

INCOME STATEMENT	31/12/2019	31/12/2018
A) **PRODUCTION VALUE**		
1) Revenues from sales and services	1,372,220	1,237,031
5) Other revenues and income:		
Other	29,454	31,942
Total 5) Other revenues and income	*29,454*	*31,942*
TOTAL PRODUCTION VALUE	**1,401,674**	**1,268,973**
B) **PRODUCTION COSTS**		
6) Raw materials, consumables and goods	-311,610	-314,407
7) For services	-661,546	-653,687
8) Leases and rentals	-57,788	-46,254
9) Personnel costs:		
a) wages and salaries	-488,587	-505,064
b) social security contributions	-155,030	-161,908
c) post-employment benefits	-29,142	-29,371
e) other costs	0	-83
Total 9) Personnel costs	*-672,759*	*-696,426*
10) Depreciation, amortisation and writedowns:		
a) amortisation of intangible assets	-6,192	-7,563
b) depreciation of property, equipment and investment property	-98,229	-102,156
Total 10) Depreciation, amortisation and writedowns	*-104,421*	*-109,719*
11) Change in raw materials, consumables and goods	-5,219	10,998
14) Sundry operating costs	-61,845	-59,777
TOTAL PRODUCTION COSTS	**-1,875,188**	**-1,869,272**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**-473,514**	**-600,299**
C) **FINANCIAL INCOME AND CHARGES**		
15) Income from equity investments:		
In associated companies	36,474	30,395
Total 15) Income from equity investments	*36,474*	*30,395*
17) Interest and other financial charges:		
Parent companies	-5,744	-6,315
Other	-824	-858
Total 17) Interest and other financial charges	-6,568	*-7,173*
TOTAL FINANCIAL INCOME AND CHARGES (15+16-17+-17-BIS)	**29,906**	**23,222**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18) Revaluations:		
a) of equity investments	49,094	39,673
Total 18) Revaluations	*49,094*	*39,673*
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (18-19)	**49,094**	**39,673**
PRE-TAX PROFIT (LOSS) (A-B+-C+-D)	**-394,514**	**-537,404**
20) Current income taxes and change in deferred tax assets and liabilities:		
Income (charges) from membership of tax consolidation/tax transparency	110,391	139,466
Total 20) Current income taxes and change in deferred tax assets and liabilities	*110,391*	*139,466*
21) **PROFIT (LOSS) FOR THE YEAR**	**-284,123**	**-397,938**

Attestation pursuant to art. 154-bis, para. 5, of Legislative Decree 58/98 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., confirm:

– the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the separate financial statements during the course of 2019.
– the performance of analytical work with reference to the objectives identified for Company Level Controls.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally,

We also confirm that the separate financial statements at 31 December 2019:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the issuer's assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed,

Sondrio, 8 April 2020

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Financial statements at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.C.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Popolare di Sondrio S.C.p.A. (the "Company" or the "Bank"), which comprise the balance sheet at December 31, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, and the cash flow statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2019, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans") Loans measured at amortised cost, the amount of which is shown in item 40 b) of the balance sheet, represent about 60%of total assets at December 31, 2019. The process of classifying Loans in the various risk categories and measuring them is relevant for the audit because the value of Loans is significant for the financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following matters are particularly relevant: the identification of objective evidence of Loans' impairment and the consequent classification of the exposures among the non-performing loans, the recoverable amount of the collaterals acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the Loans as well as the probability of disposal and the related cash flows for those loans for which a disposal plan was prepared. Furthermore, as regards to statistical evaluations, those particularly relevant are: the definition of homogeneous Loan categories in terms of credit risk, the determination of the measurement parameters of the significant increase in credit risk compared to the initial recognition date, the definition of the calculation models for the expected losses ("ECL"), which involves the identification of the exposure at the time of default ("EAD"), the definition of the probability of default ("PD") and its estimated loss ("LGD") based on the historical observation of the data for each risk category and on forward looking factors, including the macroeconomic ones. Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in	In relation to these aspects, our audit procedures included, among other: • understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans; • understanding, also with the support of our risk management and information systems specialists, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information for PD, LGD and EAD as well as the performing of test of controls and substantive procedures, aimed at the verification of the accurate determination of PD, LGD and EAD, relevant for the purpose of determining the impairment losses; • understanding, also with the support of our risk management specialists, of the methodology used in relation to the determination of impairment losses for the portfolios to be disposed; • performing analytical procedures of the portfolio of Loans and on the related coverage levels, and analysis of the most significant deviations compared to the balances of the previous year. Finally, we have analysed the adequacy of the disclosure provided in the notes to the financial statements.

Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A., in the general meeting held on April 29, 2017 appointed us to perform the audits of the financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of

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Banca Popolare di Sondrio S.C.p.A. at December 31, 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Popolare di Sondrio S.C.p.A. at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Popolare di Sondrio S.C.p.A. at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, May 2, 2020

EY S.p.A.
Signed by: Davide Lisi, auditor

This report has been translated into the English language solely for the convenience of international readers.

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

REPORT ON OPERATIONS

Shareholders.

As Parent Company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

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

Group companies:

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

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

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan.

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

Banca della Nuova Terra spa - Sondrio.

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

Popso Covered Bond srl - Conegliano

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

Equity investments are consolidated as follows:

FULLY CONSOLIDATED EQUITY INVESTMENTS:

Name	Head office	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda Srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl *	Milan	75	100
Immobiliare San Paolo srl *	Tirano	10 **	100
Immobiliare Borgo Palazzo srl *	Tirano	10 **	100
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the Banking Group
** held by Sinergia Seconda srl

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	36.825
Cossi Costruzioni Spa	Sondrio	12,598	18.250
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rent2Go srl	Bolzano	11,400	33.333
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare Srl	Sondrio	20	50.000

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

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the Parent Company's financial statements contains information on the international, Swiss and Italian economic situation during the year 2019.

TERRITORIAL EXPANSION

Again in 2019, our Group dedicated considerable effort and resources to rationalise and strengthen the branch network in our area; in contrast to the system, it has grown slightly and, above all, it has been subject to rationalisation and measures to boost its commercial capacity.

Banca Popolare di Sondrio opened a new branch in Lissone (MB) and branches no. 38 in Rome and no. 39 in Milan, located inside the Azimut Group offices in both cities.

At the end of 2019, the Group had a total of 365 branches.

GROUP PERFORMANCE

Results in brief and alternative performance indicators

In order to facilitate the understanding of the Group's economic and financial information, a number of ratios are shown below, taking into account the requirements of the document «Guidelines on alternative performance indicators», published by the European Securities and Markets Authority (ESMA) in June 2016.

RESULTS IN BRIEF

(in millions of euro)

Balance sheet	31/12/2019	31/12/2018	Change %
Loans to customers	27,387	25,845	5.97
Loans and receivables with customers measured at amortised cost	27,096	25,604	5.83
Loans and receivables with customers measured at fair value through profit or loss	291	241	21.07
Loans and receivables with banks	1,067	1,321	-19.19
Financial assets that do not constitute loans	9,723	11,065	-12.13
Equity investments	295	221	33.31
Total assets	41,146	41,128	0.04
Direct funding from customers	32,622	31,063	5.02
Indirect funding from customers	33,764	30,182	11.87
Direct funding from insurance premiums	1,608	1,410	14.00
Customer assets under administration	67,993	62,655	8.52
Other direct and indirect funding	10,068	10,524	-4.33
Equity	2,842	2,651	7.19
Income statement	**31/12/2019**	**31/12/2018**	**Change %**
Net interest income	460	508	-9.40
Total income	903	866	4.28
Profit from continuing operations	195	143	36.66
Profit for the year	137	111	24.03
Capital ratios (%)			
CET1 Capital ratio	15.75%	12.03%	
Total Capital ratio	18.64%	13.61%	
Free capital	1,832	1,228	
Other information on the banking group			
Number of employees	3,299	3,254	
Number of branches	365	362	

These economic and financial indicators are based on accounting figures and are used in internal management and performance management systems, in line with the most common metrics used in the banking sector in order to ensure that published figures are comparable.

ALTERNATIVE PERFORMANCE INDICATORS

(in millions of euro)	2019	2018
Key ratios		
Equity/Direct funding from customers	8.71%	8.53%
Equity/Loans to customers	10.38%	10.26%
Equity/Financial assets	29.23%	23.96%
Equity/Total assets	6.91%	6.45%
Profitability indicators		
Cost/Income ratio	57.32%	58.06%
Net interest income/Total income	50.97%	58.66%
Administrative expenses/Total income	58.17%	60.24%
Net interest income/Total assets	1.12%	1.24%
Net financial income/Total assets	1.67%	1.52%
Net profit for the year of the Parent Company/Total assets	0.33%	0.27%
Asset quality indicators		
Texas ratio	56.00%	70.71%
Net non-performing loans/Equity	23.51%	28.69%
Net non-performing loans/Loans and receivables with customers	2.44%	2.94%
Loans to customers/Direct funding from customers	83.95%	83.20%
Cost of credit	0.78%	0.93%

Cost/Income ratio: the ratio between operating costs and total income.
Texas ratio: the ratio between impaired loans and the difference between equity and intangible assets, as the denominator.
«Cost of credit: the ratio between net write-downs/write-backs for impairment losses on assets measured at amortised cost in the income statement and total loans and receivables with customers».

FUNDING

Again in 2019, the European Central Bank continued an expansionary monetary policy, which maintained high liquidity in the economic system, also due to the weakness of investments. Consequently, the cost of funding remained at minimum levels. In this context, our Group recorded a positive trend in deposits, substantially in line with the market.

Direct funding from customers amounts to 32,622 million, +5.02%.

Indirect funding from customers amounted to 33,764 million, +11.87%.

Insurance premium income came to 1,608 million, +14.00%.

Total funding from customers therefore amounted to 67,993 million (+8.52%).

Amounts due to banks total 4,328 million, -29.81%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which fell from 4,600 million at the end of 2018 to 2,700 million. Indirect funding from banks rose from 4,358 million to 5,741 million, +31.72%.

Total deposits from customers and banks therefore came to 78,062 million (+6.67%).

The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Considering the individual components, current accounts in euro and foreign currency rose from 27,248 million to 27,618 million, +1.36%, and make up 84.66% of all direct funding. Bonds rose by 15.42% to 2,712 million, net of redemptions. This is in contrast to the system, essentially because of the issue by the Parent Company of 4 bonds for 294 million and the issue, as part of the EMTN programme, of an unsecured senior preferred bond for 500 million, followed on 30 July by a Tier II 10-year subordinated loan of 200 million placed with institutional investors, again as part of this programme. Time deposit accounts have grown to 945 million, +17.16%. Repo transactions have risen to 509 million from practically nothing last year; savings deposits have fallen by 1.69% to 519 million. Certificates of deposit amounted to 1.4 million, continuing to be entirely marginal. Bank drafts amounted to 91 million, -28.77%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Savings deposits	518,948	1.59	527,859	1.70	-1.69
Certificates of deposit	1,391	–	1,594	0.01	-12.76
Bonds	2,711,880	8.31	2,349,650	7.56	15.42
Repo transactions	509,383	1.56	100	–	–
Bank drafts and similar	91,482	0.28	128,439	0.40	-28.77
Current accounts	25,259,856	77.44	24,944,658	80.31	1.26
Time deposit accounts	945,335	2.90	806,856	2.60	17.16
Current accounts in foreign currency	2,358,120	7.22	2,303,356	7.42	2.38
Lease liability	225,354	0.70	–	–	–
Total	**32,621,749**	**100.00**	**31,062,511**	**100.00**	**5.02**

TOTAL FUNDING

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Total direct funding from customers	32,621,749	41.78	31,062,511	42.44	5.02
Total indirect funding from customers	33,763,873	43.25	30,182,455	41.24	11.87
Total direct funding from insurance premiums	1,607,591	2.06	1,410,180	1.93	14.00
Total	**67,993,213**	**87.10**	**62,655,147**	**85.61**	**8.52**
Due to banks	4,327,709	5.54	6,165,836	8.43	-29.81
Indirect funding from banks	5,740,763	7.35	4,358,442	5.96	31.72
Grand total	**78,061,685**	**100.00**	**73,179,423**	**100.00**	**6.67**

LOANS TO CUSTOMERS

In 2019, the growth of the world economy continued to be moderate and, despite some improvement, it remained exposed to the significant risks associated with geopolitical instability, to trade conflicts that were only partially reversed, to the uncertainty generated by Brexit and the initial effects of the coronavirus in China.

Italy saw one of the GDP lowest rates of growth in the Eurozone, with economic activity held in check by the weakness of the manufacturing sector. The result was weak demand for loans from businesses, partly offset by a positive trend in loans to households for home purchase and consumer credit. In the banking sector, however, the improvement in credit quality continued.

For our Group, lending amounted to 27,387 million, up 5.97%. The trend during the year was rather subdued and only brightened up towards the end. The ratio of loans to direct deposits from customers is 83.95% compared with 83.20% last year.

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

Mortgage loans performed well, coming in at 10,658 million, +7.48%; they are the main component of loans to customers with 38.92%. The increase in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA was particularly significant.

Other unsecured loans have increased: +23.06% to 6,345 million, equal to 23.17% of loans to customers. Overall, this line item includes loans assigned but not derecognised of 1,691 million in relation to the issue of covered bonds. These loans have not been derecognised because the chosen structure does not meet the requirements of IAS 39. Currency loans increased, +15.71%, 989 million, as did factoring transactions, +3.04%, 2,222 million and advances subject to collection, +3.99%, 240 million. Current accounts decreased by 7.61%, from 4,253 to 3,929 million. Repo transactions,

LOANS TO CUSTOMERS

(in thousands of euro)	31/12/2019	%	31/12/2018	%	Change %
Current accounts	3,929,023	14.35	4,252,855	16.46	-7.61%
Foreign currency loans	989,436	3.61	855,104	3.31	15.71%
Advances	467,330	1.71	469,429	1.82	-0.45%
Advances subject to collection	239,783	0.88	230,584	0.89	3.99%
Discounted portfolio	4,738	0.02	5,801	0.02	-18.32%
Artisan loans	59,767	0.22	58,858	0.23	1.54%
Agricultural loans	21,079	0.08	20,764	0.08	1.52%
Personal loans	477,733	1.74	494,795	1.91	-3.45%
Other unsecured loans	6,344,987	23.17	5,155,908	19.96	23.06%
Mortgage loans	10,658,264	38.92	9,915,925	38.37	7.48%
Net non-performing loans	668,068	2.44	760,412	2.94	-13.70%
Repo transactions	1,099,082	4.00	1,204,429	4.66	-8.75%
Factoring	2,222,085	8.11	2,156,486	8.34	3.04%
Fixed-yield securities	206,022	0.75	263,374	1.01	-21.78%
Total	**27,387,397**	**100.00**	**25,844,724**	**100.00**	**5.97%**

which are a temporary investment of liquidity with institutional counterparties, also decreased from 1,204 to 1,099 million, -8.75%, as did personal loans, -3.45%, from 495 to 478 million. Debt securities amounted to 206 million at the end of 2019 and were also down by -21.78%; they derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa.

Total net impaired loans fell by 14.96% to 1,574 million, compared with 1,851 million; in the comparative period there was a decrease of 9.13%. This aggregate is equal to 5.75% (7.16%) of loans to customers; the decrease was partially due to the trend in the economic cycle, which showed a modest recovery but was still accompanied by an improvement in the quality of bank credit, and partially to the ongoing policy of strengthening the structures in charge of the disbursement, management and monitoring of credit.

The adjustments recorded for impaired loans total 2,158 million, -7.02%, representing 57.82% of the gross amount compared with 55.63% last year and 51.79% at the end of 2017. The adjustments for the period (still substantial in absolute terms) are lower than those of the previous year. The year under review reflects the decisions made by the Parent Company regarding NPL. Since loans to customers that fall within the potential perimeter of disposals are valued in this perspective, the income statement records any difference between the disposal value and the carrying value.

The table gives an overview of doubtful and performing loans.

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2019	31/12/2018	(+/-)	% change
Impaired loans	Gross exposure	3,732,063	4,171,707	-439,644	-10.54%
	Adjustments	2,158,087	2,320,944	-162,857	-7.02%
	Net exposure	**1,573,976**	**1,850,763**	**-276,787**	**-14.96%**
– Non-performing loans	Gross exposure	2,264,503	2,481,444	-216,941	-8.74%
	Adjustments	1,596,444	1,721,031	-124,587	-7.24%
	Net exposure	**668,059**	**760,413**	**-92,354**	**-12.15%**
– Unlikely to pay loans	Gross exposure	1,401,400	1,585,177	-183,777	-11.59%
	Adjustments	552,225	579,483	-27,258	-4.70%
	Net exposure	**849,175**	**1,005,694**	**-156,519**	**-15.56%**
– Past due and/or impaired overdrawn exposures	Gross exposure	66,160	105,086	-38,926	-37.04%
	Adjustments	9,417	20,430	-11,013	-53.90%
	Net exposure	**56,742**	**84,656**	**-27,914**	**-32.97%**
Performing	Gross exposure	25,937,252	24,111,603	1,825,649	7.57%
	Adjustments	123,831	117,644	6,187	5.26%
	Net exposure	**25,813,421**	**23,993,959**	**1,819,462**	**7.58%**
Total loans and receivables with customers	Gross exposure	29,669,315	28,283,312	1,386,003	4.90%
	Adjustments	2,281,918	2,438,588	-156,670	-6.42%
	Net exposure	**27,387,397**	**25,844,724**	**1,542,673**	**5.97%**

Net of write-downs non-performing loans amount to 668 million, -12.15% (+1.88% in the comparative period), corresponding to 2.44% of total loans and receivables with customers, compared with 2.94% at 31 December 2018. This represents a turnaround after years of growth. These percentages are low, even if higher than that of the banking system as a whole, essentially because to date the Group has not carried out any large sales of NPLs. This also reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities during the various inspections, especially with regard to positions secured against property. The adjustments to cover estimated losses on non-performing loans have risen to 1,596 million, -7.24%, representing 70.50% of the gross amount compared with 69.36% last year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 81.21%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without the bank having recourse to the enforcement of guarantees or similar forms of protection. Such loans have decreased, net of writedowns, to 850 million, -15.56%, corresponding to 3.10% of total loans and receivables with customers, compared with 3.89% the previous year. The related adjustments, with the current coverage ratio of 39.41%, amounted to 552 million, -4.70% on the comparative period, when they amounted to 579 million; the previous year's coverage ratio was 36.56%.

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

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 57 million, -32.97%, and represent 0.21% of total loans and receivables with customers compared with 0.33% the previous year.

Performing loans amounted to 25,813 million, +7.58%, and the related provisions totalled 124 million and amounted to 0.48% compared with 0.49%. This reduction in coverage goes hand in hand with the improvement in asset quality and the measures adopted to pursue this objective in both lending and credit management.

Adjustments totalled 2,282 million overall, -6.42%.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

At 31 December 2019, the net interbank position showed a negative amount of 3,261 million, compared with a negative amount of 4,845 million at the end of 2018. Cash and liquid assets total 1,826 million, compared with 1,577 million.

At year end, there were two T-LTROs outstanding with the ECB totalling 2,700 million, as reported below. The first was signed in March 2017 for 3,500 million, repayable on 24 March 2021, in order to participate in the last ECB targeted refinancing operation (T-LTRO II) intended to stimulate the real economy by guaranteeing further liquidity to the banking system; the outstanding balance is now 1,100 million, following the partial repayment made on 18 December 2019. The loan taken out for 1,100 million as part of the T-LTRO II programme on 23 June 2016 and repayable on 24 June 2020, was repaid in full in December. The other operation outstanding (T-LTRO-III) was arranged for 1,600 million on 18 December with repayment due on 21 December 2022, with quarterly opportunities for early repayment after the first 24 months. Net of these operations, the net interbank position would have been negative for 560 million.

In particular, throughout the year, the daily liquidity position reflected substantial deposits with the ECB. The exposure to liquidity risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to 11,061 million, of which 7,287 free and 3,774 committed.

As ever, drawing on the abundant liquidity of the Group together with that flooding the system as an effect of the expansionary actions of the ECB, treasury management was intensive with a preponderance of lending operations. Their characteristics were in line with those arranged in recent years, albeit with a shortening of durations towards the very short end. The Group continued to operate on the e-MID market during the year, although to a lesser extent than in 2018, again with a prevalence of lending transactions. Following introduction of the ECB tiering mechanism, which allows banks to deposit up to 6 times the mandatory reserve at a favourable fixed rate of 0%, the use of this deposit facility has been downsized. The volume of repo operations in the MMF market - guaranteed by the Central Clearing House (CCG) - remained high, even if lower that before, but still with a predominance of lending transactions.

At 31 December 2019 the portfolios of financial assets consisting of securities amounted to a total of 9,723 million, a decrease of 12.13% compared with the decrease of 6.93% that characterised the comparative period. This reduction was due, above all, to the sale of Italian government securities (short-maturity BTPs and CTZs) from the HTCS segment of the portfolio, with a view to reducing the exposure to Italian sovereign risk. The following table summarises the various amounts involved and the percentage changes.

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

(in thousands of euro)	31/12/2019	31/12/2018	Change %
Financial assets held for trading	214,466	251,044	-14.57
of which, derivatives	32,161	31,668	1.56
Other financial assets mandatorily measured at fair value	399,779	366,287	9.14
Financial assets measured at fair value through other comprehensive income	2,591,229	4,423,618	-41.42
Financial assets measured at amortised cost	6,517,073	6,024,006	8.19
Total	**9,722,547**	**11,064,955**	**-12.13**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales especially of securities near to maturity. There was a good volume of inflows and outflows during the year, although less than in the prior year, with most transactions involving the HTCS portfolio. The purchases made to diversify the portfolio consisted to securities with high ratings (covered and supranational) and corporates (mostly senior and bank subordinated). The expansionary policy adopted by the ECB has lowered yields on public debt to all-time lows, with negative or zero rates at the short end. The duration of the portfolio is slightly over three years and six months, in line with the prior year.

Financial assets held for trading

The trading portfolio, which remains very small compared with the years prior to the introduction of IFRS 9, nevertheless saw reasonable volume with the generation of good profits on variable-yield securities and ETFs, as well as on government securities. This portfolio totals 214 million, down 14.57% from 251 million previously.

(in thousands of euro)	31/12/2019	31/12/2018	Change %
Floating-rate Italian government securities	17,590	59,089	-70.23
Fixed-rate Italian government securities	65,108	54,008	20.55
Bank bonds	-	11,109	-
Bonds of other issuers	-	1,925	-
Variable-yield securities	57,212	83,095	-31.15
Mutual funds	42,395	10,150	317.68
Net book value of derivative contracts	32,161	31,668	1.56
Total	**214,466**	**251,044**	**-14.57**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with equities falling to 57 million from 83 million in the prior year (-31.15%) and now representing 26.67% of the portfolio compared with 33.10%; the presence of Italian government securities totalled 82.698 million, -26.88%. This reduction mostly involved those at floating rates. The relaxed climate in the financial markets has resulted in a positive net balance between unrealised gains and losses.

Other financial assets mandatorily measured at fair value

Financial assets mandatorily measured at fair value have increased by 9.14% to 400 million from 366 million. The portfolio relates almost entirely to various types of funds and Sicavs.

(in thousands of euro)	31/12/2019	31/12/2018	Change %
Bank bonds	17,061	8,988	89.82
Other bonds	29,992	33,943	-11.64
Variable-yield securities	1	2	-50.00
Mutual funds in euro	323,173	301,084	7.34
Mutual funds in foreign currency (USDA)	29,552	22,270	32.70
Total	**399,779**	**366,287**	**9.14**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totalled 2,591 million, -41.42%. The disposal of Italian government securities continued during the year, as part of a process that began in the second quarter of 2018. Spanish government bonds, on the other hand, were increased. Bond holdings were increased mainly due to the purchase of covered bonds and senior bank bonds. Holdings of Italian government securities fell by 58.87% to 1,436 million, from 3,491 million previously; they still represent the principal component (55.42%), with diversification represented by fixed-income Spanish and French government securities totalling 305 million.

In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets. Part of the Parent Company's holding of Nexi shares was sold during the year, realising a gain of 44.9 million that was recognised in equity in compliance with IFRS 9.

No impairment tests to identify permanent losses were required during the year and, accordingly, it was not necessary to recognise any related writedowns in the income statement.

(in thousands of euro)	31/12/2019	31/12/2018	Change %
Floating-rate Italian government securities	650,637	592,896	9.74
Fixed-rate Italian government securities	785,471	2,898,339	-72.90
Foreign government securities	304,715	273,356	11.47
Bank bonds	639,045	483,996	32.04
Other bonds	123,909	70,160	76.61
Variable-yield securities	87,452	104,871	-16.61
Total	**2,591,229**	**4,423,618**	**-41.42**

Financial assets measured at amortised cost

Securities measured at amortised cost are included in financial assets measured at amortised cost (HTC) and total 6,517 million, compared with 6,024 million, +8.19%. Following the substantial rise in the comparative period, holdings were further increased during the year as part of a reallocation of the portfolios. In particular, the ratio of Italian and foreign government securities was held essentially stable, while bond holdings were increased. Mainly in the primary market, the Bank subscribed for corporate bonds, covered bonds with high ratings, bank issues backed by government guarantees, senior preferred and non-preferred banking issues and subordinated bank bonds. The overall duration of these securities is about 3 years and six months.

(in thousands of euro)	31/12/2019	31/12/2018	Change %
LOANS AND RECEIVABLES WITH BANKS	**480,402**	**75,059**	**540.03**
Italian bank bonds	324,241	15,744	1,959.46
Foreign bank bonds	156,161	59,315	163.27
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,036,671**	**5,948,947**	**1.47**
Floating-rate Italian government securities	808,060	809,779	-0.21
Fixed-rate Italian government securities	3,623,653	3,599,927	0.66
Foreign government securities	1,436,621	1,418,467	1.28
Other bonds	168,337	120,774	39.38
Total	**6,517,073**	**6,024,006**	**8.19**

Asset management

After an extremely negative 2018, the year under review presented a very positive trend in financial markets, allowing the asset management industry to set a new all-time record, despite the impasse in which the individual savings plans found themselves due to the well-known operating constraints. The growing weight of foreign funds was confirmed and, in terms of asset class, there was a preference for bonds and balanced funds, rather than equity and flexible funds.

Our Group also suffered from the general climate. Funding activities performed well. Assets under management in various forms totalled 5,840 million at the end of 2019, up by 8.09% since 31 December 2018, of which 4,242 million, +13.43%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,598 million, -3.91%. The decrease in the latter is linked to customers' reallocation choices.

BPS stock

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2019 down by 19.91%, with a reference price at 30 December of 2.108 euro, compared with 2.632 euro at the end of 2018.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares with a carrying amount of 25.322 million, which is unchanged since the end of 2018, as no purchases or sales were made. There are also 24,431 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

EQUITY INVESTMENTS

Equity investments amount to 295 million. The increase of 74 million mainly reflects the increase in the stake in Arca Holding spa, which rose from 21.137 to 36.825%, as well as the measurement of these investments at equity, except for minor ones.

The reader is referred to the report accompanying the Parent Company's 2019 financial statements and to Part A, section 3 and Part B, section 7 of the explanatory notes for the related comments.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure requirements of article 5 of the above Consob Regulation, between 1 January and 31 December 2019, the competent bodies of the Parent Company approved the following transactions of greater significance with related parties (the other Group companies did not carry out any transactions of greater significance during 2019):

– Release spa, associated company; renewal of lines of credit totalling € 92,000,000 available until revoked; resolution of 11/2/2019;
– Banca della Nuova Terra spa, subsidiary; finance area revolving facility for € 250,000,000 expiring on 24/3/2021; resolution of 22/3/2019;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling € 1,870,916,197 available until revoked; resolution of 22/3/2019;
– Prestinuova spa, subsidiary (later absorbed by Banca della Nuova Terra spa); revolving facility for advances up to € 80,000,000, expiring 15/9/2019; renewal of lines of credit totalling € 140,000,000 available until revoked; resolutions of 22/3/2019;
– Alba Leasing spa, associated company; renewal of lines of credit totalling € 439,028,948 available until revoked; resolution of 1/10/2019;
– Factorit spa, subsidiary; renewal of lines of credit totalling € 3,020,101,500 available until revoked; resolution of 8/11/2019;

– Popso Covered Bond srl, subsidiary; unsecured loan subordinated to the covered bond for € 2,500,000,000 with a duration of 117 months; resolution of 8/11/2019.

In addition, as part of the programme for the issue of covered bonds authorised by the Parent Company's Board of Directors in 2014 and updated in 2019, on 29 November 2019, with effect from 1 December 2019, the Parent Company assigned to Popso Covered Bond srl a portfolio of Performing mortgages amounting to € 352 million.

During 2019, no transactions of greater or lesser significance were carried out with related parties, which could have had an significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2018 - in any case none of an atypical, unusual or non-market nature - with a significant effect on the Group's balance sheet or results for 2019.

In relation to Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2019 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2019	2018	2019	2018
ASSETS	**590,550**	**626,019**	**81,004**	**377**
LIABILITIES AND EQUITY	**339,134**	**367,383**	**601**	**973**
GUARANTEES AND COMMITMENTS	**277,166**	**51,557**	**105,761**	**200**
Guarantees given	39,466	49,894	92,070	89
Commitments	237,700	1,663	13,690	111

GOODWILL

Intangible assets include goodwill for 12.632 million, of which 7.487 million relating to the acquisition of Factorit spa in 2010 and 4.785 million relating to the acquisition of PrestiNuova spa in 2018. In compliance with IAS 36, this goodwill has been subjected to impairment testing in order to check for any impairment in value. Information about this is provided in Part B, section 10 Intangible assets, of the notes to the financial statements. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

The Group has 3,302 employees at the end of 2019, an increase of 45 persons from 3,257 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Shareholders' equity at 31 December 2019, inclusive of valuation reserves and the profit for the year, amounts to 2,841.780 million. Compared with the total at 31 December 2018 of 2,650.822 million, this represents an increase of 190.958 million. The change reflects distribution of part of the profit for the prior year and recognition of the profit for the current year, as well as an increase in the valuation reserves for unrealised gains due to the good performance of the financial markets.

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

The share premium reserve remained unchanged at 79.005 million.

Equity reserves rose to 1,297.442 million, +11.78%; this increase of 136.759 million reflects allocation of a good part of the profit for 2018 and the recognition of capital gains on the sale of variable-yield securities that were previously classified to the valuation reserves. In this regard, note that the Parent Company's Shareholders' Meeting of 27 April 2019 approved the result for 2018 and the proposed distribution of a dividend of 0.05 euro for each of the 453,385,777 shares outstanding at 31 December 2018.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a negative net balance of 6.885 million, an improvement compared with the end of 2018, when they were negative for 34.452 million; this progress was due to the positive performance of the financial markets. Treasury shares in portfolio remained essentially unchanged at 25.374 million.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced the following limits for capital ratios: 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. Under the powers granted and using the information gathered in the context of the prudential review and assessment process, the ECB can set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Bank was notified in a communication dated 5 February 2019 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 March 2019. The minimum capital levels required of our Banking Group are.

– a minimum Common Equity Tier1 ratio of 9.25% (formerly 8.375%), calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%);
– a minimum requirement of Tier1 Capital Ratio of 10.75%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (2.25%);
– a minimum Total Capital Ratio of 12.75% (formerly 11.875%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.50%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

«Pillar 2 Guidance», which provides a guide to the future evolution of the Group's capital, was added in 2017. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends. In May, the ECB authorised the use of our internal rating system for regulatory purposes, starting from the reports issued as of 30 June 2019. This is the successful outcome of a very long journey, which required substantial investment and has led to a significant increase in our capital ratios. On 14 December 2019, following completion of the annual Supervisory Review and Evaluation Process (SREP) carried out in 2019, the ECB notified the Bank of the new prudential minimum requirements applicable at consolidated level from 1 January 2020. The new minimum Common Equity Tier 1 ratio (CET 1 Ratio) is 10%, with a minimum Total Capital ratio of 13.50%.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,209.889 million at 30 September 2019.

In the interests of full disclosure, the Group decided to take advantage of Regulation (EU) 2017/2395, which allows supervised intermediaries to include, temporarily, in the calculation of their Tier1 capital an additional amount aimed at «neutralising» the effects of the higher accounting provisions required on immediate adoption of IFRS9, which came into force on 1 January 2018. A decreasing percentage of this additional amount will be applied to CET1 capital each year, falling from 95% in 2018, to 85% in 2019, to 25% in 2022 until it is completely eliminated in 2023.

The Group's adequacy ratios at 31 December 2019 (phased-in) are set out below together with the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET1 Ratio	15.75%	9.25%
Tier1 capital ratio	15.80%	10.75%
Total capital ratio	**18.64%**	**12.75%**

The leverage ratio is 6.02%, applying the Phased In transitional criteria in force for 2019, and 6.01% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Company carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,817 million, 975 million more than its consolidated equity, which amounted to 2,842 million. Further details are provided in Part F «Information on equity» of the notes. The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2018:

– *capital/direct funding from customers*
  8.71% v. 8.53%
– *capital/loans and receivables with customers*
  10.38% v. 10.26%
– *capital/financial assets*
  29.23% v. 23.96%
– *capital/total assets*
  6.91% v. 6.44%
– *net non-performing loans/capital*
  23.51% v. 28.69%

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(in thousands of euro)

	Equity	of which: Profit for the year
Equity of the Parent Company as of 31.12.2019	2,517,571	100,695
Consolidation adjustments	(7,096)	(7,096)
Difference with respect to the carrying amounts of equity investments in:		
– companies consolidated on a line-by-line basis	277,138	24,733
– companies valued using the equity method	54,167	19,103
Balance as of 31.12.2019, as reported in the consolidated financial statements	**2,841,780**	**137,435**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings.

For further information, see the directors' report accompanying the 2019 financial statements of the Parent Company.

INCOME STATEMENT

The stagnation of economic activity that has taken place since the first few months of 2018 continued in 2019 despite the improvement in the conditions of the financial and credit markets which received stimulus from monetary policy. Despite the weakness of the economy, credit quality continues to improve. In this context in which the traditional bank model has low returns, the Group was able to do better than the previous year, despite still having to face the challenges associated with the various changes in the macroeconomic context, regulation and technology. 2019 closed with a net profit of 137.435 million, up by 24.03% from 110.804 million in 2018.

On 1 January 2019 the new IFRS 16 came into force, replacing IAS 17 which governed leases. The Group has exercised the option provided in the standard of not having to restate comparative figures. It follows that the amounts reported for administrative expenses, depreciation of property, equipment and investment property and interest expense are not fully comparable.

Profit benefited above all from the significant increase in the results from trading in securities, given the buoyancy of the financial markets that in 2018, by contrast, were penalised by marked volatility which caused unrealised losses on securities to significantly outweigh unrealised gains. The reduction in adjustments on loans to customers and the way that commissions help up well also contributed to the good result, while the low yields had a negative impact on net interest income.

Net interest income decreased by 9.40%, coming in at 460.375 million. The expansive monetary policy that continued throughout the year, and which was confirmed by the new ECB President Christine Lagarde, has reduced bond rates to very low levels, in some cases even negative, as well as the interbank indices that have fallen to levels that have never been seen before, significantly impacting floating rate loans to customers. The spread between lending and funding rates continued to tighten, albeit less strongly than in the prior year, due to the intensifying price competition that has reduced the room for manoeuvre regarding the rates to apply.

Interest income fell by 8.12% to 573.801 million, whereas interest expense came to 113.426 million, down by 2.54%. The modest decrease in the latter, despite a significant reduction in the rates on short-term deposits, was affected by the cost of bond issues under the EMTN programme, the increase in negative rates on liquid deposits at the ECB and the recognition of 3.927 million of interest expense on lease liabilities following the introduction of IFRS 16. Net of the latter, net interest income would have come to 464.302 million, -8.63%.

Net fee and commission income totalled 322.277 million, +2.10%, principally due to the rise in commissions from the placement of financial products including, in particular, asset management and insurance products, but also those earned on current accounts, custodian bank business, collections and payments.

By contrast, there was a decline in commissions from the acceptance of orders and the issue of guarantees.

Dividend income amounted to 3.554 million compared with 29.097 million previously, mainly due to the extraordinary dividend of 20.883 million declared by Nexi Spa in the prior year, as part of work to restructure the Group.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 117.087 million compared with 13.360 million. This sub-total represents the sum of income statement items 80 – 90 – 100 – 110, as detailed below. While fluctuating widely during the year, long-term yields in the Euro-area financial markets trended downwards, together with risk premiums, due to expectations that the highly-accommodative monetary policies would continue for a long time to come.

The portfolio of assets held for trading (line item 80) generated a net profit of 69.248 million, compared with 19.826 million previously. There was a good increase in profits from trading in securities, up from 4.698 million to 18.813 million, while gains from foreign exchange rose from 43.365 million to 44.723 million, +3.13%. The net result between capital gains and losses on securities also contributed significantly to the good result of financial activities, which went from a negative result of 31.157 million to a positive one of 2.576 million, as did the result of derivatives, which stood at 3.194 million compared with 3 million. Exchange differences remain negative and fell from 80 thousand euro to 58 thousand euro.

The profit from trading (line item 100) was 35.756 million compared with 5.486 million. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost, 23.056 million; financial assets measured at fair value through other comprehensive income, 12.286 million; financial liabilities, 0.414 million.

The net result from other assets and liabilities measured at fair value through profit or loss (line item 110) was 12.072 million positive compared with 11.857 million negative, which included a charge of 5.257 million deriving from the FITD rescue of Carige, which was expensed in full.

Income from banking activities amounted to 903.293 million, +4.28% due, as mentioned, to the results of trading in securities. Within this aggregate, the weighting of net interest income came to 50.97% from 58.66%.

Despite growth still being held back by the risks linked to geopolitical factors, growing protectionism and vulnerabilities in emerging markets, even if they were less marked than before, the improvement in credit quality

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/12/2019	31/12/2018	(+/-)	% change
Net interest income	460,375	508,135	-47,760	-9.40
Dividends	3,554	29,097	-25,543	-87.79
Net fee and commission income	322,277	315,661	6,616	2.10
Result of financial activities	117,087	13,360	103,727	776.40
Total income	**903,293**	**866,253**	**37,040**	**4.28**
Net adjustments to loans and financial assets	-212,537	-237,313	24,776	-10.44
Gains/losses on contractual amendments not resulting in derecognition	-3,288	-2,839	-449	15.82
Net financial income	**687,468**	**626,101**	**61,367**	**9.80**
Personnel expenses	-245,182	-238,966	-6,216	2.60
Other administrative expenses	-271,771	-281,316	9,545	-3.39
Other operating income/expense	67,687	63,263	4,424	6.99
Net accruals to provisions for risks and charges	-9,439	-10,967	1,528	-13.93
Adjustments to property, equipment and investment property and intangible assets	-59,020	-34,989	-24,031	68.68
Operating costs	**-517,725**	**-502,975**	**-14,750**	**2.93**
Operating profit (loss)	**169,743**	**123,126**	**46,617**	**37.86**
Net gains (losses) on equity investments and other investments	25,253	19,561	5,692	29.10
Profit (loss) before tax	**194,996**	**142,687**	**52,309**	**36.66**
Income taxes	-55,522	-28,725	-26,797	93.29
Profit (loss)	**139,474**	**113,962**	**25,512**	**22.39**
Profit (loss) attributable to non-controlling interests	-2,039	-3,158	1,119	-35.43
Profit (loss) attributable to the Parent Company	**137,435**	**110,804**	**26,631**	**24.03**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of € 8.507 million.

continued along with the ongoing reduction in overall impaired loans.

The new structures and processes activated for the granting, monitoring and control of loans to customers are generating benefits, with a reduction in the default rate and, consequently, in the amount of impaired loans.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 212.537 million, compared with 237.313 million, -10.44%, in the prior year.

The ECB guidelines for the management of NPLs have invited banks with high levels of impaired loans (gross) to adopt clear and realistic strategies to reduce the stock. This can be done internally, through the establishment of dedicated Working Units, or through direct disposals in the market. The Group, which has one of the highest coverages of impaired loans at national level, has strengthened its dedicated Working Unit in this area. However, this solution implies the retention of impaired loans on the balance sheet and long recovery times compared with selling them on the market. Disposals result in immediate derisking and, consequently, the immediate improvement of capital ratios, profitability ratios and overall risk management; in addition, they release frozen financial resources and free up specialist personnel who can improve the efficiency of the remaining recovery work to be done in-house. Lastly, disposals improve overall asset quality and enhance the risk profile of the Group. On 8 August 2019, the Parent Company's Board of Directors resolved to sell gross non-performing loans totalling 1 billion and, later, on 20 December 2019, the Board also resolved to sell an additional 400 million of gross non-performing loans and other impaired loans, mostly comprising unlikely-to-pay exposures. These positions were measured using models capable of estimating their potential recoverable value and possible selling price.

The sub-caption adjustments to financial assets measured at amortised cost, which represent exposures to customers and banks in the form of loans and securities, has decreased by 11.28% after contracting by 4.12% in the prior year. This sub-item totals 214.073 million and, ignoring modest net provisions and write-backs on securities and banks, relates almost entirely to loans to customers.

The small reduction in the adjustment of loans to customers, despite the slowdown in the flow of new impaired loans, reflects the adverse effect of measuring the loans identified for possible sale. The models used to determine the writedowns highlight, in particular, the improvement in the PD of performing loans. In addition to the improvement in the general economic situation, even if only slight, and apart from the higher extraordinary charges as a result of the sales of NPLs, this contraction can reasonably be attributed, at least in part, to the various measures adopted by the Group to improve lending quality and refine the processes adopted for the assessment of loans. This is particularly the case with regard to the writedowns for non-performing loans, unlikely-to-pay loans, loans past due determined in accordance with the supervisory regulations, and of course performing loans.

Sub-item 130b relating to financial assets valued at fair value through other comprehensive income made a positive contribution of 1.536 million, compared with 3.970 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, reflects a net loss for the year of 3.288 million.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore gone down from 0.93% to 0.78%.

Financial income has therefore increased to 687.468 million, +9.80%.

Efforts have continued to improve the efficiency of the structures and contain costs, which is absolutely essentially given the continuing squeeze on net interest income. Operating costs totalled 517,725 million, +2.93%. This contained an increase overall, due to opposing trends within the various component parts, was largely due to lower provisions for credit risk in relation to commitments and guarantees given and a rise in other operating income.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has declined to 57.31%, from 58.06% in the prior year, while the ratio of operating costs to total assets has came to 1.26% from 1.22%. Looking at costs in more detail, administrative expenses - normalised after excluding the provision for proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 516.953 million, -0.64%; of this amount, personnel costs rose from 238.966 to 245.182 million, +2.60%, while other administrative expenses declined from 281.316 to 271.771 million, -3.39%. This last comparison is not made on a consistent basis, due to the FTA of IFRS 16 Leasing. Once again, other significant expenses included use of the interbank networks, consultancy, IT costs and contributions to the National Resolution Fund and to FITD. These last contributions totalled 29.970 million compared with 26.949 million in the prior year.

«Net accruals to provisions for risks and charges» amounted to 9.439 million, compared with 10.967 million, down by 13.93%. The total comprises 12.273 million in net provisions for risks and charges, as offset by 2.834 million released following over accruals in prior years for the credit risk on commitments and guarantees given.

Adjustments to property, equipment and investment property and the amortisation of software totalled 59.020 million, compared with 34.989 million previously. This increase was largely due to the FTA of IFRS 16, as discussed in relation to other administrative costs, but with opposite effect.

Other income, stated after the above-mentioned reclassification and net of other operating expenses, amounted to 67.687 million, +6.99%.

The aggregate profits/losses on equity and other investments shows a positive balance of 25.253 million, +29.10%.

Profit before income taxes therefore totalled 194.996 million, +36.66%. After deducting income taxes of 55.522 million, +93.29% on the previous year, and the non-controlling interest of 2,039 million, the profit for the year comes to 137.435 million, +24.03%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 28.47% compared with 20.13% in the previous year.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after 31 December 2014.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Banca della Nuova Terra spa and Sinergia Seconda srl.

The signs of stabilisation identified at the end of 2019 vanished with the spread of the COVID-19 epidemic, now pandemic, which will have a serious adverse effect on the entire global economy. The spread of COVID-19 and the resulting regulatory and administrative measures are highlighting certain impacts on the domestic and international economies that are difficult to quantify, given the uncertainties linked to the phenomenon.

Doubts about the recovery of trade and economic activity in general are certainly indicative of the adverse dynamics building in the global economy. The impact of this exceptional event on the various macroeconomic forecasts, especially that for GDP, is difficult to assess. The banking system is duty bound to consider the likely impact of these deteriorating macroeconomic scenarios on its assets and, in particular, when measuring its outstanding credit exposures and granting new loans.

In the coming months, it will be necessary to provide maximum support to businesses and households in order to meet their temporary liquidity needs, as well as to facilitate the recovery.

The contraction in economic activity will have adverse consequences for asset quality, as mitigated by the corrective actions taken by governmental authorities.

Against this background and continuation of the accommodative ECB monetary policy throughout 2020, interest rates can be expected to remain at minimum levels. This will penalise the net interest income of banks, while the volatility in the financial markets of the spread between Italian BTPs and German Bunds can be expected to increase.

As regards our Group, 2020 will undoubtedly be a difficult year: securities will not generate the positive results achieved in 2019 and the economy will contract as a consequence of the COVID-19 emergency. The derisking launched by the Parent Company in 2019 will continue, starting with completion of the sales of NPLs already announced.

As regards the impact on the securities in portfolio as a result of the sharp contractions of world stock exchanges and, hence, the effect on capital ratios and the liquidity position, please refer to the analogous paragraph in the Parent Company's report on operations, as almost all of the securities in portfolio are held by it.

In the light of the foregoing, the result for the current period is expected to be down on last year.

Sondrio, 9 April 2020

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

PRESENTATION OF COMPARATIVE AMOUNTS

Considering the method adopted for the transition to IFRS 16. the Group did restate the comparative figures in the year of first-time adoption of IFRS 16 on a consistent basis; the figures for 2018 are therefore not fully comparable,

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

	ASSET ITEMS		31-12-2019		31-12-2018
10.	CASH AND CASH EQUIVALENTS		**1,826,427**		**1,577,163**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**905,705**		**858,069**
	a) financial assets held for trading	214,466		251,044	
	c) other financial assets mandatorily measured at fair value	691,239		607,025	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**2,591,229**		**4,423,618**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**34,200,066**		**32,873,554**
	a) loans and receivables with banks	1,067,458		1,320,621	
	b) loans and receivables with customers	33,132,608		31,552,933	
70.	EQUITY INVESTMENTS		**294,609**		**220,957**
90.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**548,172**		**328,161**
100.	INTANGIBLE ASSETS		**31,186**		**33,259**
	of which:				
	- goodwill	12,632		12,632	
110.	TAX ASSETS		**419,295**		**465,040**
	a) current	4,971		31,834	
	b) deferred	414,324		433,206	
130.	OTHER ASSETS		**329,500**		**348,364**
	TOTAL ASSETS		**41,146,189**		**41,128,185**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-12-2019		31-12-2018
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**36,949,458**		**37,228,347**
	a) due to banks	4,327,709		6,165,836	
	b) customer deposits	29,816,997		28,630,307	
	c) debt securities in issue	2,804,752		2,432,204	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**67,019**		**57,211**
40.	HEDGING DERIVATIVES		**11,320**		**16,826**
60.	TAX LIABILITIES		**46,050**		**29,767**
	a) current	16,843		4,252	
	b) deferred	29,207		25,515	
80.	OTHER LIABILITIES		**821,434**		**760,091**
90.	POST-EMPLOYMENT BENEFITS		**43,789**		**43,222**
100.	PROVISIONS FOR RISKS AND CHARGES		**270,298**		**248,850**
	a) commitments and guarantees given	43,411		46,163	
	b) pension and similar obligations	179,965		160,734	
	c) other provisions for risks and charges	46,922		41,953	
120.	VALUATION RESERVES		**(6,885)**		**(34,452)**
150.	RESERVES		**1,297,442**		**1,160,683**
160.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
170.	SHARE CAPITAL		**1,360,157**		**1,360,157**
180.	TREASURY SHARES (-)		**(25,374)**		**(25,375)**
190.	NON-CONTROLLING INTEREST (+/-)		**95,041**		**93,049**
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**137,435**		**110,804**
	TOTAL LIABILITIES AND EQUITY		**41,146,189**		**41,128,185**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	ITEMS		31-12-2019		31-12-2018
10.	INTEREST AND SIMILAR INCOME		573,801		624,515
	of which: Interest income calculated using the effective interest method	565,590		618,122	
20.	INTEREST AND SIMILAR EXPENSE		(113,426)		(116,380)
30.	**NET INTEREST INCOME**		**460,375**		**508,135**
40.	FEE AND COMMISSION INCOME		343,620		336,146
50.	FEE AND COMMISSION EXPENSE		(21,343)		(20,485)
60.	**NET FEE AND COMMISSION INCOME**		**322,277**		**315,661**
70.	DIVIDENDS AND SIMILAR INCOME		3,554		29,097
80.	NET TRADING INCOME		69,248		19,826
90.	NET HEDGING GAINS (LOSSES)		11		(95)
100.	GAINS/LOSSES FROM SALE OR REPURCHASE OF:		35,756		5,486
	a) financial assets measured at amortised cost	23,056		2,122	
	b) financial assets measured at fair value through other comprehensive income	12,286		3,381	
	c) financial liabilities	414		(17)	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		12,072		(11,857)
	b) other financial assets mandatorily measured at fair value	12,072		(11,857)	
120.	**TOTAL INCOME**		**903,293**		**866,253**
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(212,537)		(237,313)
	a) financial assets measured at amortised cost	(214,073)		(241,283)	
	b) financial assets measured at fair value through other comprehensive income	1,536		3,970	
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(3,288)		(2,839)
150.	**NET FINANCIAL INCOME**		**687,468**		**626,101**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**687,468**		**626,101**
190.	ADMINISTRATIVE EXPENSES:		(525,460)		(521,858)
	a) personnel expenses	(253,689)		(240,542)	
	b) other administrative expenses	(271,771)		(281,316)	
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(9,439)		(10,967)
	a) commitments and guarantees given	2,834		(11,926)	
	b) other net provisions	(12,273)		959	
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(41,104)		(17,715)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(17,916)		(17,274)
230.	OTHER OPERATING INCOME/EXPENSE		76,194		64,839
240.	**OPERATING COSTS**		**(517,725)**		**(502,975)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		25,529		19,903
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(290)		(368)
280.	NET GAINS ON SALE OF INVESTMENTS		14		26
290.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**194,996**		**142,687**
300.	INCOME TAXES		(55,522)		(28,725)
310.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**139,474**		**113,962**
330.	**PROFIT (LOSS) FOR THE PERIOD**		**139,474**		**113,962**
340.	PROFIT (LOSS) FOR THE PERIOD OF NON-CONTROLLING INTEREST		(2,039)		(3,158)
350.	**PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY**		**137,435**		**110,804**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items/Amounts		2019	2018
10.	**Profit (loss) for the period**	**139,474**	**113,962**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	(17,833)	10,645
70.	Defined-benefit plans	(12,303)	(949)
90.	Share of valuation reserves of equity investments valued at net equity	(25)	(50)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110.	Exchange differences	308	–
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	53,048	(76,078)
160.	Share of valuation reserves of equity investments valued at net equity	4,334	(4,225)
170.	**Total other income items net of income taxes**	**27,530**	**(70,657)**
180.	**Comprehensive income (Item 10+170)**	**167,004**	**43,305**
190.	Consolidated comprehensive income attributable to minority interests	2,002	3,188
200.	**Consolidated comprehensive income attributable to the Parent Company**	**165,001**	**40,117**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,746	–	1,393,746	–	–	–	–
b) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) from earnings	1,207,575	–	1,207,575	91,375	–	15,877	–
b) other	5,186	–	5,186	–	–	32,665	–
Valuation reserves	**(34,586)**	**–**	**(34,586)**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,375)**	**–**	**(25,375)**	**–**	**–**	**–**	**–**
Profit for the year	**113,962**	**–**	**113,962**	**(91,375)**	**(22,587)**	**–**	**–**
Equity attributable to the group	**2,650,822**	**–**	**2,650,822**	**–**	**(22,587)**	**48,542**	**–**
Equity attributable to non-controlling interest	**93,049**	**–**	**93,049**	**–**	**–**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital:							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	10
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,119,099	(51,266)	1,067,833	131,253	–	8,489	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**28,315**	**7,757**	**36,072**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,370)**	**–**	**(25,370)**	**–**	**–**	**–**	**–**
Profit for the year	**165,184**	**–**	**165,184**	**(131,253)**	**(33,931)**	**–**	**–**
Equity attributable to the group	**2,678,920**	**(45,119)**	**2,633,801**	**–**	**(31,581)**	**8,489**	**–**
Equity attributable to non-controlling interest	**90,593**	**1,610**	**92,203**	**–**	**(2,350)**	**–**	**10**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income at 31.12.2019	**Equity attributable to the group 31.12.2019**	**Equity pertaining to minority interests 31.12.2019**
(10)	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	**79,005**	**4,358**
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	**1,261,548**	**53,279**
–	–	–	–	–	–	–	**35,894**	**1,957**
–	–	–	–	–	–	**27,529**	**(6,885)**	**(171)**
–	–	–	–	–	–	–	–	–
1	–	–	–	–	–	–	**(25,374)**	–
–	–	–	–	–	–	**139,474**	**137,435**	**2,039**
1	–	–	–	–	–	**165,001**	**2,841,780**	–
(10)	–	–	–	–	–	**2,002**	–	**95,041**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income at 31.12.2018	**Equity attributable to the group 31.12.2018**	**Equity pertaining to minority interests 31.12.2018**
–	–	–	–	–	–	–	**1,360,157**	**33,589**
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,157,454**	**50,121**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	–	–	–	–	–	**(70,657)**	**(34,452)**	**(134)**
–	–	–	–	–	–	–	–	–
(5)	–	–	–	–	–	–	**(25,375)**	–
–	–	–	–	–	–	**113,962**	**110,804**	**3,158**
(5)	–	–	–	–	–	**40,117**	**2,650,822**	–
–	–	–	–	–	–	**3,188**	–	**93,049**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	31/12/2019	31/12/2018
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**493,669**	**559,911**
- profit for the year (+/-)	137,435	110,804
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	(31,386)	27,142
- net hedging gains (losses) (-/+)	(11)	96
- net adjustments for credit risk (+/-)	230,694	263,220
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	59,309	35,357
- provisions for risks and charges and other costs/revenues (+/-)	24,307	33,781
- unpaid taxes, duties and tax credits (+)	55,522	28,725
- other adjustments (+/-)	17,799	60,786
2. **Cash generated/absorbed by financing activities**	**508,062**	**1,009,350**
- financial assets held for trading	61,825	53,373
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value through profit and loss	(69,327)	(97,475)
- financial assets measured at fair value through other comprehensive income	1,913,729	2,462,482
- financial assets measured at amortised cost	(1,452,935)	(1,363,754)
- other assets	54,770	(45,276)
3. **Cash generated/absorbed by financial liabilities**	**(670,211)**	**(639,760)**
- financial liabilities measured at amortised cost	(694,354)	(768,738)
- financial liabilities held for trading	(2,340)	10,818
- financial liabilities measured at fair value	–	–
- other liabilities	26,483	118,160
Net cash generated/absorbed by operating activities	**331,520**	**929,501**

	31/12/2019	31/12/2018
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**6,403**	**10,103**
- sales of equity investments	–	–
- dividends collected from equity investments	6,377	9,892
- sales of property, equipment and investment property	26	211
- sales of intangible assets	–	–
- sales of subsidiaries and business divisions	–	–
2. **Cash absorbed by**	**(89,675)**	**(46,804)**
- purchases of equity investments	(58,131)	(1,800)
- purchases of property, equipment and investment property	(16,076)	(18,313)
- purchases of intangible assets	(15,468)	(26,691)
- purchases of subsidiaries and business divisions	–	–
Net cash generated/absorbed by investing activities	**(83,272)**	**(36,701)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	1	(5)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(22,487)	(37,811)
- sale/purchase of controlling interests in third parties	–	–
Net cash generated/absorbed by financing activities	**(22,486)**	**(37,816)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**225,762**	**854,984**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2019	31/12/2018
Cash and cash equivalents at beginning of year	1,577,163	699,379
Total net cash generated/absorbed in the year	225,762	854,984
Cash and cash equivalents: effect of change in exchange rates	23,502	22,800
Cash and cash equivalents at end of year	**1,826,427**	**1,577,163**

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2019 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Legislative Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

The consolidated financial statements at 31 December 2019 were approved by the Board of Directors on 09 April 2020.

Section 2 *Basis of preparation*

The consolidated financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations.
   Considering the structure of deposits based essentially on customer current accounts and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together

with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.

5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.

6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. As allowed on first-time adoption of IFRS 16 «Leases» from 1 January 2019, the Group has elected not to restate the comparative figures. In this regard, reference should be made to the following paragraph «Other aspects» for an explanation of the changes introduced by IFRS 16, as well as for a description of the impacts for the Group deriving from first-time adoption (FTA) of this new standard. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

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

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31.12.2019 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Banca della Nuova Terra S.p.a., Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

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

[1] 1 = majority of voting rights at ordinary shareholders' meeting.
4 = other form of control
* held by Sinergia Seconda S.r.l.
** equity investments not included in the Banking Group

Fondo Immobiliare Centro delle Alpi Real Estate is held 100% by the Parent Company. The scope of the companies that are consolidated on a line-by-line basis was amended following the absorption of Prestinuova Spa by Banca della Nuova Terra Spa on 24 June and the exclusion of Adriano SPV Srl, which carried out a securitisation of receivables sold by Prestinuova Spa and which was closed in advance last May.

In June, Prestinuova S.p.A. was absorbed by Banca della Nuova Terra S.p.A. The transaction took place between wholly-owned subsidiaries and in the separate financial statements of the merging company the use of the so-called pooling/continuity of values method was chosen, given that the transaction does not fall into the scope of IFRS 3. The transaction did not have any impact on the consolidated financial statements at 31 December 2019.

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

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

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

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

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

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

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

The joint ventures shown below are valued at equity:

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

(1) 7 = joint control.

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

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

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

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

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

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

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

After applying the equity method, the Group assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment.

In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures».

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Upon the loss of significant influence over an associate or joint control over a joint venture, the Group assesses and recognises the residual investment at fair value.

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	36.825
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Cossi Costruzioni S.p.a.	Sondrio	12,598	18.250
Polis Fondi Srgpa	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.a.

Business combinations

Business combinations are accounted for using the purchase method. The total cost of an acquisition is the sum of the consideration paid, measured at fair value at the acquisition date, and the non-controlling interest in the company acquired. For each business combination, the Group defines whether to measure the non-controlling interest at fair value or in proportion to the non-controlling interest in the identifiable net assets of the company acquired. Acquisition costs are written off during the year and classified under administrative expenses.

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

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

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

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

Translation of financial statements in currencies other than the euro

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

Section 4 ***Subsequent events***

No events have taken place between the reference date for these consolidated financial statements and the date of their approval by the Board of Directors on 09/04/2020 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

The Wuhan Municipal Health Commission reported cases of pneumonia in Wuhan (China), due to unknown causes, to the World Health Organisation at the end of 2019.

On 30 January the World Health Organisation declared the epidemic to be an international public health emergency, raising the coronavirus threat level to «very high» on 28 February 2020.

Consistent with the provisions of IAS 10, the healthcare emergency linked to COVID-19 has been treated by the Group as a type of subsequent event that does require adjustment of the financial statements, because the epidemic and its consequences took place after the reporting date. The effects on the Italian and international economies of the spread of COVID-19 and the regulatory and administrative measures adopted as a consequence are difficult to quantify, given the uncertainties associated with the phenomenon. Doubts about the recovery of trade and economic activity in general are certainly indicative of a likely decline in global economic growth. The impact of this exceptional event on the macroeconomic situation faced by the Group will be reflected in the IFRS 9 estimates of the loan losses expected in 2020. The banking system is duty bound to consider the likely impact of the deteriorating macroeconomic situation when measuring its outstanding exposures and granting new loans. Nevertheless, the extremely sudden, never before seen, nature of the economic crisis induced by the reaction to COVID-19, also means that banks must avoid excessive reactions that would recognise in the financial statements many deteriorations which may only be temporary. Over the coming months, it will be necessary to identify those counterparties whose creditworthiness has been altered structurally as a consequence of the crisis. Banks will need to take this action on a timely basis in order to preserve their financial strength. Albeit mitigated by the corrective measures adopted by the government, the contraction in economic activity will have adverse effects on asset quality that, in accordance with IFRS 9, will need to be considered during 2020.

Section 5 ***Other aspects***

The accounting policies applied during the year under review are consistent with those of the prior year 2018, except for the adoption of IFRS 16 Leases from 1 January 2019.

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

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

These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2019, as required by prevailing accounting standards and relevant regulation.

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

The outcome of this work supports the carrying amount of these items at 31 December 2019.

It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2019.

The new accounting standards and amendments to existing standards approved by the IASB are summarised below, together with the new interpretations and amendments published by the IFRIC and in force from 1 January 2019:

- Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.
- Commission Regulation (EU) 2018/498 dated 22 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2019.
- Regulation (EU) 2018/1595 of 23 October 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 23. This applies from 1 January 2019.
- Regulation (EU) 2019/237 dated 11 February 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. This applies from 1 January 2019.
- Regulation (EU) 2019/402 dated 14 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. This applies from 1 January 2019.
- Regulation (EU) 2019/412 dated 15 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Annual Improvements to IFRS Standards 2015-2017 Cycle. This applies from 1 January 2019.

New accounting standards and/or amendments to existing standards that must be applied subsequent to 31 December 2019:

- Regulation (EU) 2020/34 dated 15 January 2020 which issued the «IBOR Reform» document modifying certain hedge accounting requirements. This enables entities to report useful information during the period of uncertainty caused by the gradual elimination of benchmark interest rates by the end of 2021. The principal points of this document relate to the highly-probable requirement for the hedging of cash flows (i.e. if the hedged element consists of a programmed operation, the entity must determine if that operation is highly probable, assuming that the benchmark interest rate underlying the hedged cash flows does not change as a result of the reform), to assessment of the relation between the hedged element and the hedging instrument (the entity must assume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument do not change as a result of the reform), to forward-looking and retrospective assessments (the entity must presume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument will not change as a result of the reform), and to the designation of a component of risk as the hedged element (the entity must apply the specific provisions of IFRS 9/IAS 39 if the risk component affected by the reform is only identifiable separately at the start of the hedging relationship; it is not necessary to remeasure or redesignate a hedging relationship if the hedge is dynamic). This applies from 1 January 2020.

– Regulation (EU) 2019/2075 dated 29 November 2019 which adopts amendments to update existing references in several standards and interpretations to previous frameworks with references to the revised conceptual framework. This applies from 1 January 2020.
– Regulation (EU) 2019/2104 dated 29 November 2019 which clarifies the definition of «material» to make it easier for companies to make materiality judgements and to enhance the relevance of the disclosures in the notes to the financial statements, in accordance with the amendments made to IAS 1 and IAS 8. This applies from 1 January 2020.

Amendments and new accounting standards not yet endorsed:

– Amendment to IFRS 3 Business Combinations, issued by the IASB on 22 October 2018 to help determine whether a transaction is the acquisition of a business or a group of assets that does not satisfy the IFRS 3 definition of a business. This applies from 1 January 2020.
– Amendments to IAS 1 Financial Statement Presentation: Classification of liabilities as current or non-current. On 23 January 2020 the IASB publish an amendment to IAS 1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
  - clarification about how loan conditions influence classification; and
  - clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

  This applies from 1 January 2022.

The above amendments and interpretations, including IFRS 16, have not had a significant effect on the economic and financial position of the Bank.

In addition, on 18 May 2017 the IASB issued IFRS 17 which governs the policies written by insurance companies.

This standard applies from 1 January 2022.

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

IFRS 16: Leases

IFRS 16, the new standard on leases issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, from 1 January 2019 replaces IAS 17 and the related interpretations to clarify the definition of a lease (IFRIC 4 «Determining whether an arrangement contains a lease»; SIC 15 «Operating leases - incentives» and SIC 27 «Evaluating the substance of transactions involving the legal form of a lease») eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a lease asset («right of use») and the related lease liability in the financial statements. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions. The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

On signing the contract, the entity must determine if the contract is, or contains, a lease. The contract is, or contains, a lease if:

- in exchange for a consideration, it grants the right to control the use of a specific asset for a period of time,
- during the entire period of use, the customer will have the right to obtain substantially all the economic benefits deriving from use of the asset and the right to decide how the asset should be used.

At the contract start date, the lessee must recognise both the right-of-use asset and the leasing liability. On the date of initial recognition, the lease liability is the present value of the lease payments not yet made at that date. Subsequently, the amount of the leasing liability is determined by increasing the carrying amount by the interest charged, decreasing it by the lease payments made and recalculating it with reference to any changes made to the lease or new considerations.

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the leasing liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost and depreciated over the life of the contract or over its useful life if the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option.

In economic terms, the lease instalments previously recognised as administrative expenses are replaced by recognition of the interest charged on the leasing liability and the depreciation charged on the right of use.

On FTA, the lessee has two options for applying the standard. The lessee can apply the new standard to its lease contracts:

a) retrospectively applying IAS 8 «Accounting policies, changes in accounting estimates and errors» and restating the comparative data; or
b) retrospectively recognising the cumulative effect of the application the standard as an adjustment of the opening balance of retained earnings on the first-time application date (without restating the comparative data).

The Group decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard. Instead, the Group elected to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8. According to this approach:

- the right of use is equal to the lease liability, i.e. it is equal to the present value of the future instalments to be paid for the expected duration of the contract and attributable to the lease component, net of VAT, discounted on the basis of the incremental borrowing rate on the date of FTA, adjusted for any prepaid expenses or accrued liabilities relating to the lease;

- the comparative figures for 2018 are not restated.

Lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

As allowed by IFRS 16, the Group opted to apply the following practical expedients on transition to the new standard:

a) exclusion from balance sheet recognition of lease contracts with a residual duration not exceeding 12 months (regardless of the original duration of the contract);
b) estimation of lease duration based on prior experience and the information available on the date of first-time adoption about the future exercise of any extension or early termination options.

The operating rules used by the Group during the FTA phase for lease contracts classified as operating leases according to IAS 17 are summarised below:

- the low-value contract exemption has been applied: the threshold applied is consistent with the USD 5,000 provided for in IFRS 16. This includes mobile phones not owned by the Company;
- the short-term contract exemption has been applied to contracts that end within 12 months of being applied for the first time. In particular, this includes property contracts with a release date within the same term.
- the practical expedient of not separating service components from the lease components has not been applied, which means that the entire contract is accounted for as a lease;
- for the recognition and measurement of the lease payable at 1 January 2019:
  a. the discount rate applied was set by using the «incremental borrowing rate» approach based on the duration of the contract at 1 January 2019.

     Specifically, the methodology adopted by the Group envisages that the incremental borrowing rate should be determined as the risk-free borrowing rate plus a spread to reflect the total cost of funding. This rate therefore takes into account the creditworthiness of the lessee, the duration of the lease and the macroeconomic context in which the transaction takes place.
  b. the lease duration was determined by applying the principle of reasonableness; in particular, the Group has decided to consider only the first renewal period as reasonably certain on the FTA date (and on new contracts), unless there are specific contractual clauses, facts or circumstances that lead one to consider additional renewals or to determine the end of the lease;
  c. for the quantification of the right of use at 1 January 2019, the practical expedient used was to exclude initial direct costs from the measurement.
- The practical expedient envisaged by IAS 37 was applied to the evaluation of the onerous nature of the leases.

Reconciliation of financial position at 31 December 2018 to the new financial position at 1 January 2019.

The table summarises the impact of adopting the new standard on each asset, liability and equity component of the balance sheet format laid down by the 6th update to Bank of Italy Circular 262/05. Note that rights of use are recognised as part of «Property, equipment and investment property» and are not therefore shown separately in the balance sheet.

The «31/12/2018» column shows the amounts of the balance sheet items on that date, the «Change» column shows the amounts deriving from the recognition of contracts according to the new accounting standard, while the «01/01/2019» column shows the new amounts of assets and liabilities following the transition to the new standard, being the sum of the figures in the other two columns.

Figures are stated in thousands of euro.

Asset items	31/12/2018	CHANGE	01/01/2019
90. Property, equipment and investment property	328,161	225,889	554,050
130. Other assets	348,364	(1,454)	346,910
Total assets	**41,128,185**	**224,435**	**41,352,620**

Equity and liability items	31/12/2018	CHANGE	01/01/2019
10. Financial liabilities measured at amortised cost	37,228,347	224,435	37,452,782
a) Due to banks	6,165,836	–	6,165,836
b) Customer deposits	28,630,307	224,435	28,854,742
c) Debt securities in issue	2,432,204	–	2,432,204
Total liabilities and equity	**41,128,185**	**224,435**	**41,352,620**

Details of the impacts shown in the table are as follows:

- Euro 225.889 million representing the value of the right of use connected to the lease of buildings, vehicles and electronic office equipment;
- Euro 224.435 million for the related lease liability to lessors given by the present value of lease payments due but not paid on the FTA date;
- –Euro 1.454 million for prepaid expenses accounted for at 31 December 2018 for lease payments that are no longer subject to recognition following the introduction of the new standard, as the new accounting treatment envisages precise recognition of the lease liability.
- the above changes arising on FTA, almost entirely attributable to property lease contracts, did not give rise to the recognition of profits or losses as a result of FTA to be recorded under equity and are immaterial with respect to CET1.

The provisions introduced by IFRS 16, on FTA, entailed the recognition under assets of the rights of use and of the corresponding financial liabilities for property lease agreements and car rental contracts. The non-lease components of these types of contracts are accounted for separately in accordance with IFRS 15.

As regards the discount rate, as reported above, the lease liabilities have been discounted at the rate as of 1 January 2019 with reference to the maturities of the individual contracts. In particular, the weighted average of the lessee's weighted incremental borrowing rate, applied to lease liabilities, recognised in the statement of financial position at the date of first-time application is 1.73%.

According to the provisions of IFRS 16.C12, the following table compares the scope of leases as defined by IAS 17 with the scope as defined by the new standard:

Reconciliation of lease liabilities at 1 January 2019

Minimum future liabilities at 31 December 2018 - IAS 17 operating lease commitments not discounted	**255,672**
Exceptions to IFRS 16 recognition	**481**
– contracts ending within 12 months from the date of initial application	111
– contracts whose underlying asset is of low value	370
Other changes	**(11,301)**
Lease liabilities at 1 January 2019 not discounted	**243,891**
Discounting effect	(19,456)
Lease liabilities at 1 January 2019	**224,435**
Lease liabilities for financial leases under IAS 17 at 1 January 2019	261
Total liabilities at 1 January 2019	**224,696**

The following detail is also provided in order to explain the various categories of rights of use that have been identified and the various impacts on the balance sheet items:

	Assets				Liabilities
Impacts on balance sheet items	Lease Lease liabilities	Prepayments at 31 December 2018	Recovery costs (provision for charges)	Total at 1 January 2019	Total at 1 January 2019
Property, equipment and investment property used for business purposes	**224,435**	**1,454**	**–**	**225,889**	**–**
– land	–	–	–	–	–
– buildings	224,000	1,449	–	225,449	–
– furniture	–	–	–	–	–
– plant	214	–	–	214	–
– other	221	5	–	226	–
Rights of use purchased with a lease (adjusted for prepayments and recovery costs)	**224,435**	**1,454**	**–**	**225,889**	**–**
Prepayments at 31 December 2018 (deducted from other assets)				(1,454)	–
Total assets at 1 January 2019*				**224,435**	**–**
Lease liabilities				**–**	**224,435**
Recovery costs				–	–
Total liabilities at 1 January 2019*				**–**	**224,435**
Equity (retained earnings)				–	–

* Net of existing finance leases at the transition date.

A.2 Part relating to the main line items in the financial statements

Classification of financial assets

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

Held to Collect (HTC)

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

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

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

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

Held to Collect & Sell (HTC&S)

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

Others (FVTPL)

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

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

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

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

Solely Payment of Principal and Interest Test (SPPI test)

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

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

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

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

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

Classification

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

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

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

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

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

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

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

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

Discounted Cash Flow Model (DCF).

Reverse mortgage model:

ABS model:

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

Classification

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

The following are classified in the portfolio measured at fair value through other comprehensive income:

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

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them. With regard to fixed-yield securities and loans, the Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed. No possibility exists for the reclassification of variable-yield securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

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

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

At each reporting date, fixed-yield securities classified as «fair value through other comprehensive income» are subjected to impairment testing using a framework similar to that established for financial instruments measured at amortised cost (see Chapter 3). Any subsequent writebacks cannot exceed the impairment losses recorded previously.

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

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recognised in an equity reserve named «Valuation reserves», composed of the sub-items «Valuation reserves: Variable-yield securities designated at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

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

Dividends are shown under «dividends and similar income».

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

Derecognition

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

3. Financial assets measured at amortised cost

Classification

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

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products).
   They also include deposits with Central Banks other than sight deposits included in the line item «Cash and cash equivalents» (for example, mandatory reserve);

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

   Also included are:

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

Recognition

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

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

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

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

Accounting policies

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

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

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

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

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

In particular:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios. In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

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

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

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

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

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

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

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

Expected Loss		Expected Loss - Disposal Scenario	*		Expected Loss - Internal Management
Individual	=	Probability of		+	Scenario * Probability of occurrence
Position		occurrence	of Disposal		of Internal Management

Recognition of components affecting the income statement

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

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

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

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

Derecognition

Financial assets are derecognised when the contractual rights over the cash flows deriving from them expire or are extinguished, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

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

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

However, the standard includes new guidance on:

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

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

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

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

3.1 Commitments and guarantees given

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

4. Hedging transactions

Classification and recognition

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

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

The hedging of market risks can take two different forms:

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

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

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

Measurement and recognition of components affecting the income statement

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

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

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

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

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

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

Derecognition

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

5. Equity investments

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

Recognition

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

Accounting policies

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

Measurement and recognition of components affecting the income statement

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

Derecognition

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

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. From 1 January 2019, the rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

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

Recognition

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

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

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

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

At the time the contract begins, the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract. The asset is recognised at cost, determined by the sum of:
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset;
- a financial liability deriving from the lease agreement corresponding to the present value

of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

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

Accounting policies

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

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

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

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

The economic effects of a leasing contract are recognised in the income statement of the lessee as follows:

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

Derecognition

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

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

7. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

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

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

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

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

9. Current and deferred taxation

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

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

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

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions: – they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future. Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions: – the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain. Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that their recovery is probable; this probability is assessed by carrying out a probability test, based on the Group's ability to continue generating positive taxable income or, as a result of the Tax Consolidation option, based on that generated by the tax group member companies.

Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal. Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date. Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

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

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

11. Financial liabilities measured at amortised cost

Classification

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

Recognition

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

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

Accounting policies

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

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

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

Recognition of components affecting the income statement

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

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

Derecognition

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

12. Financial liabilities held for trading

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

13. Financial liabilities designated at fair value

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

14. Currency transactions

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

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

Derecognition

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

15. Termination indemnities

Post-employment benefits (i.e. termination indemnities) are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, for the portion of the amount accrued.

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

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee.

This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

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

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

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

Share-based payments – Transactions settled using equity instruments

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

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

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

Revenues from contracts with customers

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

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

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

Income from dividends

Dividends are recognised when the right to collect them arises.

Treasury shares

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

Covered bonds

See Part E, section E.4, of these notes to the financial statements.

Interbank Deposit Protection Fund - Voluntary Scheme

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

Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by art. 35 of Legislative Decree 34 dated 30/4/2019 (so-called «Growth decree»)

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

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

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in future might, in fact, differ significantly from the estimates made when preparing the financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated. The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies of the COVID-19 pandemic. After starting in China during January 2020, this has now spread worldwide and is discussed further in the «Outlook for operations» section of the report on operations of the Company's financial statements, to which reference should be made due to the preponderant weight of the Parent Company within the Group.

At the time of preparing this financial report, the following information and sensitivity analyses regarding the principal reporting captions are considered to be subject to estimates

- losses expected on credit exposures
- recoverability of intangible assets (goodwill)
- measurement of financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)
- recoverability of deferred tax assets
- liabilities defined benefit payments to employees, and may provide guidance about the uncertainties that exist at the time of preparing this Financial Report, which are compounded by the effects of the reaction to the COVID-19 pandemic, as described further in «Section 4 – Significant subsequent events». The new estimates needed in this context during 2020, in order to update the current and forward-looking scenarios, are likely to highlight adverse changes to the principal reporting captions subject to estimates including, in particular, the security and loan portfolios, as well as to the scenarios considered for the sensitivity analyses carried out at 31 December 2019.

The accounting policies considered most sensitive when it comes to providing useful information for the true and fair presentation of the economic and financial position of the Group are summarised below, having regard for materiality considerations and the great complexity of the assessments and measurements made. Reference is made to specific sections of the notes to the financial statements for detailed information about the measurement processes followed at 31 December 2019.

Loans are one of the measured captions most exposed to the choices made by the Group in terms of granting and managing credit and monitoring the risk. Without prejudice to the upcoming discussion in Section 1 - Credit risk, on the quantitative and qualitative nature of credit management, the Group manages the risk of borrower default by monitoring continuously the changes in credit risk inherent in the various loan portfolios. In particular, in order to determine the impact of the losses expected following the selection of various macroeconomic scenarios, the section dedicated to credit risk in Part E of these notes to the financial statements contains a sensitivity analysis of the losses expected on performing loans to customers. In addition with regard to impaired loans, given the major planned disposal described in the report on operations with regard to the Diana project, it is also necessary to adopt a multi-scenario approach by estimating the cash flows recoverable from the disposal, as an alternative to those considered obtainable from the internal management (work out) scenario; o recovery times; o estimated recoverable value of buildings and other guarantees. In this context and considering a range of possible approaches to the development of estimation models allowed by the relevant international accounting standards, the adoption of a specific methodology or the selection of certain estimation parameters may influence significantly the measured value of loans. These methodologies and parameters are subject to a physiological update process designed to refine the estimates made to determine, in the best possible way, the realisable value of credit exposures. In particular, in order to determine the expected loss on performing loans and update the time series of risk parameters and macroeconomic factors using the latest forecasts available, a number of enhancements were made to the models in 2019 with a view to improving the estimates of expected credit loss in terms of Point-in-Time and Forward-Looking default risk, as required by IFRS 9. Overall, these changes did not have a significant impact on the economic and financial position of the Group. In any case, it is quite possible that the introduction of alternative monitoring criteria or different methodologies, parameters and assumptions for determining the recoverable value of credit exposures – influenced in part by changes in the alternative recovery strategies approved by the competent corporate bodies, or by significant adverse changes in the relevant economic-financial and regulatory environment – could result in different measurements and valuations to those made for the purpose of preparing the financial statements at 31 December 2019.

Checks are carried out annually to ensure that there are no indicators of permanent losses on intangible assets with an indefinite useful life (goodwill) and equity investments recorded under assets. The impairment test is prepared by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the fair value, whichever is the higher, net of selling costs. At 31 December 2019, goodwill on the books amounted to a total of 12.6 million. The impairment test of these assets did not highlight the need to carry out any write-down of the carrying amounts. Part B of these Notes to the Financial Statements, section 10 – «Intangible assets», provides the main assumptions underlying the verification of the recoverability of goodwill and the related results; given the significant excess that emerged in the determination of the economic values of the assets with respect to their carrying amounts, it was not necessary to carry out a sensitivity analysis of the results in relation to reasonable variations of the main assumptions. With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. The recognition of these assets and their subsequent retention in the balance sheet is dependent on verification of their recoverability. This involves the performance of a probability test that, inter alia, takes account of the tax regulations in force at the reporting date. At 31 December 2019, the Group has recognised deferred tax asset totalling about 338 million that satisfy the requirements of Law 214 dated 22 December 2011, which are transformable into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. For the residual tax assets that cannot be converted into tax credits, on the basis of the provisions of accounting standard IAS 12 and the considerations formulated by ESMA in the document of 15 July 2019, the required verification of recoverability was carried out by analysing the probability of having sufficient taxable income in the future. In particular, the forecast of profitability that underpins the opinion on recoverability is based on reasonable and realistic hypotheses and assumptions. It also applies a weighting factor that expresses the relative degree of uncertainty, which increases along with the estimation time horizon. This said, the recoverability of all the deferred tax assets might be adversely influenced by further changes in the current tax regulations, which are not foreseeable at this time. Section 11 – «Tax assets and tax liabilities», contained in Part B - Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 TRANSFER OF FINANCIAL ASSETS HELD FOR TRADING

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

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

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

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

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

A.4.2 Processes and sensitivity of the measurements

The Group uses various methodologies to determine the fair value of assets and liabilities. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3. Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

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

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

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

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

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

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.05% under the adverse scenario and higher by 0.06% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.22% under the adverse scenario and higher by 0.21% under the favourable scenario).
   Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 0.41% following an increase in the rate curves and, conversely, increased by 1.67% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +1.97%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -0.89% if the rate curves are shifted up, and +1.11% if they are shifted down.

A.4.3 Fair value hierarchy

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

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

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

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

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	31/12/2019			31/12/2018		
Assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss of which**	**211,483**	**340,948**	**353,274**	**246,805**	**321,628**	**289,627**
a) Financial assets held for trading	170,496	35,865	8,105	209,478	41,556	–
- Financial assets designated at fair value	–	–	–	–	–	–
c) Other financial assets mandatorily measured at fair value	40,987	305,083	345,169	37,327	280,072	289,627
2. **Financial assets measured at fair value through other comprehensive income**	**2,517,070**	**–**	**74,159**	**4,306,378**	**–**	**117,238**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**62,787**	**–**	**–**	**63,077**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,728,553**	**340,948**	**490,220**	**4,553,183**	**321,628**	**469,942**
1. **Financial liabilities held for trading**	**–**	**66,829**	**190**	**–**	**57,211**	**–**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**11,320**	**–**	**–**	**16,826**	**–**
Total	**–**	**78,149**	**190**	**–**	**74,037**	**–**

There were no transfers between fair value levels during the year.

The impact of the CVA and DVA on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**289,627**	**–**	**–**	**289,627**	**117,238**	**–**	**63,077**	**–**
2. **Increases**	**179,779**	**8,160**	**–**	**171,619**	**21,185**	**–**	**133**	**–**
2.1. Purchases	158,180	8,000	–	150,180	9,503	–	–	–
2.2. Income booked to:	14,826	160	–	14,666	9,010	–	133	–
2.2.1. Income statement	14,826	160	–	14,666	–	–	133	–
- of which realized gains	11,548	160	–	11,388	–	–	133	–
2.2.2. Equity	–	–	–	–	9,010	–	–	–
2.3. Transfers from other levels	–	–	–	–	2,413	–	–	–
2.4. Other increases	6,773	–	–	6,773	259	–	–	–
3. **Decreases**	**116,099**	**55**	**–**	**116,044**	**64,264**	**–**	**423**	**–**
3.1. Sales	3,670	–	–	3,670	–	–	–	–
3.2. Reimbursements	70,230	–	–	70,230	260	–	–	–
3.3. Losses booked to:	20,168	55	–	20,113	13,860	–	423	–
3.3.1. Income statement	20,168	55	–	20,113	–	–	423	–
- of which losses	20,144	55	–	20,089	–	–	423	–
3.3.2. Equity	–	–	–	–	13,860	–	–	–
3.4. Transfers from other levels	–	–	–	–	9,539	–	–	–
3.5. Other decreases	22,031	–	–	22,031	40,605	–	–	–
4. **Closing balance**	**353,307**	**8,105**	**–**	**345,202**	**74,159**	**–**	**62,787**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**–**	**–**	**–**
2. **Increases**	**190**	**–**	**–**
2.1 Issues	–	–	–
2.2. Losses booked to:	190	–	–
2.2.1. Income statement	190	–	–
- of which losses	190	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**–**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	–	–	–
3.3.1. Income statement	–	–	–
- of which realized gains	–	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**190**	**–**	**–**

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	34,200,066	6,403,705	-	28,795,515	32,873,554	5,832,354	-	28,220,875
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**34,200,066**	**6,403,705**	**-**	**28,795,515**	**32,873,554**	**5,832,354**	**-**	**28,220,875**
1. Financial liabilities measured at amortised cost	36,949,458	2,598,332	247,560	34,144,708	37,228,347	2,156,641	268,788	34,796,143
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**36,949,458**	**2,598,332**	**247,560**	**34,144,708**	**37,228,347**	**2,156,641**	**268,788**	**34,796,143**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

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

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

PART B Information on the consolidated balance sheet

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2019	31/12/2018
a) Cash	153,362	144,540
b) Sight deposits with central banks	1,673,065	1,432,623
Total	**1,826,427**	**1,577,163**

Section 2 Financial assets measured at fair value through profit or loss - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2019			31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	82,698	–	–	126,131	–	–
1.1 Structured securities	–	–	–	1,925	–	–
1.2 Other fixed-yield securities	82,698	–	–	124,206	–	–
2. Variable-yield securities	57,212	–	–	83,095	–	–
3. Mutual funds	30,586	11,808	–	252	9,898	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**170,496**	**11,808**	**–**	**209,478**	**9,898**	**–**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial derivatives:	–	24,057	8,105	–	31,668	–
1.1 for trading	–	24,057	8,105	–	31,668	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**–**	**24,057**	**8,105**	**–**	**31,668**	**–**
Total (A+B)	**170,496**	**35,865**	**8,105**	**209,478**	**41,556**	**–**

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	**31/12/2019**	**31/12/2018**
A. **Cash assets**		
1. Fixed-yield securities	82,698	126,131
a) Central banks	–	–
b) Public administrations	82,698	113,097
c) Banks	–	11,109
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	1,925
2. Variable-yield securities	57,212	83,095
a) Banks	7,288	26,202
b) Other financial companies	4,314	4,084
of which: insurance companies	3,249	1,854
c) Non-financial companies	45,610	52,809
d) Other issuers	–	–
3. Mutual funds	42,394	10,150
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**182,304**	**219,376**
B. **Derivatives**		
a) Central Counterparties	–	–
b) Other	32,162	31,668
Total (B)	**32,162**	**31,668**
Total (A+B)	**214,466**	**251,044**

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

	31/12/2019			31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**40,846**	**–**	**37,335**	**36,697**	**–**	**41,750**
1.1 Structured securities	–	–	37,132	–	–	41,750
1.2 Other fixed-yield securities	40,846	–	203	36,697	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**1**
3. **Mutual funds**	**141**	**305,083**	**47,502**	**630**	**280,072**	**42,653**
4. **Loans**	**–**	**–**	**260,332**	**–**	**–**	**205,222**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	260,332	–	–	205,221
Total	**40,987**	**305,083**	**345,169**	**37,327**	**280,072**	**289,626**

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

Mutual funds consist of closed-end unlisted equity funds for € 50.635 million, bond funds for € 242.948 million, real estate funds for € 3.964 million, balanced funds for € 41.735 million and a flexible fund for € 13.443 million.

These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

Analysis of the measurement methods used to determined fair value in the 2019 financial statements resulted in reclassifying certain UCITS to Level 2 in the fair value hierarchy. For consistency, the comparative amounts have been restated.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2019	31/12/2018
1. **Variable-yield securities**	**–**	**2**
of which: banks	–	2
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**78,181**	**78,447**
a) Central banks	–	1,747
b) Public administrations	23,785	25,962
c) Banks	17,061	8,988
d) Other financial companies	31,331	35,516
of which: insurance companies	–	–
e) Non-financial companies	6,004	6,234
3. **Mutual funds**	**352,726**	**323,355**
4. **Loans**	**260,332**	**205,221**
a) Central banks	–	–
b) Public administrations	93	126
c) Banks	–	–
d) Other financial companies	50	14,355
of which: insurance companies	–	–
e) Non-financial companies	177,997	111,898
f) Households	82,192	78,842
Total	**691,239**	**607,025**

Section 3 *Financial assets measured at fair value through other comprehensive income - line item 30*

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

	31/12/2019			31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,489,354**	**–**	**14,423**	**4,305,473**	**–**	**13,274**
1.1 Structured securities	369,387	–	10,677	266,311	–	11,979
1.2 Other fixed-yield	2,119,967	–	3,746	4,039,162	–	1,295
2. **Variable-yield securities**	**27,716**	**–**	**59,736**	**907**	**–**	**103,964**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,517,070**	**–**	**74,159**	**4,306,380**	**–**	**117,238**

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

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2019	31/12/2018
1. **Fixed-yield securities**	**2,503,777**	**4,318,747**
a) Central banks	–	–
b) Public administrations	1,745,832	3,764,591
c) Banks	639,046	483,996
d) Other financial companies	67,878	24,469
of which: insurance companies	–	–
e) Non-financial companies	51,021	45,691
2. **Variable-yield securities**	**87,452**	**104,871**
a) Banks	9,517	10,029
b) Other issuers:	77,935	94,842
- other financial companies	65,287	87,194
of which: insurance companies	–	–
- non-financial companies	12,648	7,648
- other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,591,229**	**4,423,618**

3.3 Financial assets valued at fair value through other comprehensive income: gross value and total adjustments

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stadio	Partial total write-off
Fixed-yield securities	2,497,785	–	7,104	–	1,063	49	–	–
Loans –	–	–	–	–	–	–	–	
Total 31/12/2019	**2,497,785**	**–**	**7,104**	**–**	**1,063**	**49**	**–**	**–**
Total 31/12/2018	**4,313,716**	**–**	**7,679**	**–**	**2,578**	**69**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–	–

Section 4 *Financial assets measured at amortised cost - line item 40*

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

	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**83,529**	**-**	**-**	**-**	**-**	**83,529**	**472,698**	**-**	**-**	**-**	**-**	**472,698**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	80,548	-	-	-	-	-	469,600	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	2,981	-	-	-	-	-	3,098	-	-	-	-	-
B. **Loans and receivables with banks**	**983,929**	**-**	**-**	**335,862**	**-**	**655,323**	**847,923**	**-**	**-**	**75,407**	**-**	**772,865**
1. Loans	503,533	-	-	-	-	503,604	772,870	-	-	-	-	772,865
1.1 Current accounts and sight deposits	191,760	-	-	-	-	-	259,107	-	-	-	-	-
1.2. Fixed-term deposits	270,009	-	-	-	-	-	426,804	-	-	-	-	-
1.3. Other loans:	41,764	-	-	-	-	-	86,959	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	41,764	-	-	-	-	-	86,959	-	-	-	-	-
2. Fixed-yield securities	480,396	-	-	335,862	-	151,719	75,053	-	-	75,407	-	-
2.1 Structured securities	115,632	-	-	110,773	-	6,268	-	-	-	-	-	-
2.2 Other fixed-yield securities	364,764	-	-	225,089	-	145,451	75,053	-	-	75,407	-	-
Total	**1,067,458**	**-**	**-**	**335,862**	**-**	**738,852**	**1,320,621**	**-**	**-**	**75,407**	**-**	**1,245,563**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

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

Type of transaction/Amounts	Total 31/12/2019						Total 31/12/2018					
		Book value		Fair value				Book value		Fair value		
		First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Level 1	Level 2	Level 3
1. **Loans**	**25,382,603**	**1,538,441**	**185,895**	**-**	**-**	**27,863,530**	**23,542,925**	**1,833,204**	**184,078**	**-**	**-**	**26,735,780**
1.1. Current accounts	3,468,586	619,158	68,596	-	-	-	3,737,618	741,013	72,857	-	-	-
1.2. Repo transactions	1,099,082	-	-	-	-	-	1,204,429	-	-	-	-	-
1.3. Mortgage loans	13,869,982	805,069	100,614	-	-	-	12,806,748	916,772	95,848	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	492,614	22,784	2,195	-	-	-	483,641	13,103	873	-	-	-
1.5 Leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	2,210,498	11,821	-	-	-	-	2,136,650	20,475	-	-	-	-
1.7. Other loans	4,241,841	79,609	14,490	-	-	-	3,173,839	141,841	14,500	-	-	-
2. **Fixed-yield securities**	**6,211,564**	**-**	**-**	**6,067,843**	**-**	**193,133**	**6,176,805**	**-**	**-**	**5,756,947**	**-**	**239,532**
2.1. Structured securities	1,402,490	-	-	1,212,684	-	193,133	1,313,239	-	-	1,021,503	-	239,532
2.2. Other fixed-yield securities	4,809,074	-	-	4,855,159	-	-	4,863,566	-	-	4,735,444	-	-
Total	**31,594,167**	**1,538,441**	**185,895**	**6,067,843**	**-**	**28,056,663**	**29,719,730**	**1,833,204**	**184,078**	**5,756,947**	**-**	**26,975,312**

Receivables are object of a partial specific hedge.

Mortgage loans include € 1.691 million of residential mortgages, which were the subject of covered bond transactions by the Parent Company.

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

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

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

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

	31/12/2019			31/12/2018		
Type of transaction/Amounts	First and second stage	Third stage	Of which: impaired assets purchased or originated	First and second stage	Third stage	Of which: impaired assets purchased or originated
1. **Fixed-yield securities**	**6,211,564**	**–**	**–**	**6,176,805**	**–**	**–**
a) Public administration	5,961,600	–	–	5,908,263	–	–
b) Other financial companies	215,246	–	–	240,707	–	–
of which: insurance companies	8,286	–	–	6,266	–	–
c) Non-financial companies	34,718	–	–	27,835	–	–
2. **Loans to:**	**25,382,603**	**1,538,441**	**185,895**	**23,542,925**	**1,833,204**	**184,078**
a) Public administration	261,852	193	–	95,722	267	–
b) Other financial companies	3,067,054	22,829	475	2,865,285	15,808	1,135
of which: insurance companies	7,483	–	–	208	–	–
c) Non-financial companies	13,179,308	1,065,784	125,798	12,083,204	1,285,461	120,404
d) Households	8,874,389	449,635	59,622	8,498,714	531,668	62,539
Total	**31,594,167**	**1,538,441**	**185,895**	**29,719,730**	**1,833,204**	**184,078**

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

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	6,695,436	–	–	–	3,469	–	–	–
Loans	22,696,893	–	3,374,733	3,683,410	36,710	65,256	2,144,969	343,073
Total 31/12/2019	**29,392,329**	**–**	**3,374,733**	**3,683,410**	**40,179**	**65,256**	**2,144,969**	**343,073**
Total 31/12/2018	**28,344,792**	**–**	**2,795,500**	**4,145,060**	**49,193**	**50,747**	**2,311,858**	**193,888**
of which: impaired financial assets purchased or originated	–	–	49,169	248,227	–	709	110,792	7,121

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational offices	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
RENT2GO	Bolzano	Bolzano	7	Banca Popolare di Sondrio SCPA	33.333	33.333
B. **Associated companies**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
ARCA HOLDING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	36.825	36.825
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio spa	21.614	21.614
COSSI COSTRUZIONI SPA	Sondrio	Sondrio	8	Banca Popolare di Sondrio SCPA	18.250	18.250

Key
7 = joint control
8 = associated company

7.2 Relevant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	394	–	–
2. RENT2GO	3,852	–	–
B. **Associated companies**			
1. ALBA LEASING S.p.A.	78,163	–	–
2. ARCA VITA S.p.A.	71,720	–	4,429
3. ARCA HOLDING S.p.A.	125,207	–	1,585
4. UNIONE FIDUCIARIA S.p.A.	11,089	–	363
5. POLIS FONDI SGR PA	1,509	–	–
6. COSSI COSTRUZIONI S.p.A.	2,101	–	–
7. SOFIPO SA	–	–	–
Total	**294,035**	**–**	**–**

The fair value is not shown for companies that are not listed on active markets.

7.3 Relevant equity investments: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	190	–	611	–	14	111
2. RENT2GO S.r.l.	4,101	–	77,346	41,670	28,415	9,925
B. **Associated companies**						
1. ALBA LEASING S.p.A.	4	4,979,049	161,485	4,576,123	158,667	100,436
2. ARCA VITA S.p.A.	126,582	11,323,847	315,694	1,444,409	60,548	1,313,458
3. ARCA HOLDING S.p.A.	2	275,173	175,577	83,920	26,873	323,919
4. UNIONE FIDUCIARIA S.p.A.	10,939	20,156	43,735	11,971	24,994	27,823
5. POLIS FONDI SGR PA	–	7,863	2,062	414	1,812	7,033
6. COSSI COSTRUZIONI SPA	557	12,144	50,946	29,850	22,273	48,682

lThe above figures are taken from the most recent financial investments available.

The accounting information presented in the financial statements of associated companies is reconciled below with the carrying amounts of the related equity investments, as required by IFRS 12.

Name	Equity value	Share of equity value	Book value	Dividends
A. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	786	394	394	–
2. RENT2GO	11,557	3,852	3,852	–
B. **Associated companies**				
1. ALBA LEASING S.p.A.	405,748	78,163	78,163	
2. ARCA VITA S.p.A.	483,396	71,720	71,720	4,429
3. ARCA HOLDING S.p.A.	339,959	125,207	125,207	1,585
4. UNIONE FIDUCIARIA S.p.A.	46,206	11,089	11,089	363
5. POLIS FONDI SGR PA	7,697	1,509	1,509	–
6. COSSI COSTRUZIONI SPA	11,512	2,101	2,101	–
7. SOFIPO SA	–	–	–	–

7.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total assets	Total liabilities
Associated companies	574	4,327	1,533

The above figures are taken from the most recent financial investments available.

Net interest income	Net adjustments to property, equipment and investment property and intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
–	(37)	42	30	–	30	–	30
(421)	(3,472)	(1,428)	(1,428)		(1,428)	–	(1,428)
67,788	(2,929)	5,480	3,179	–	3,179	(127)	3,052
176,740	–	60,213	41,793	–	41,793	28,171	69,964
(151)	(3,050)	60,356	41,959	–	41,959	(15)	41,944
(91)	(2,956)	1,679	1,170	–	1,170	–	1,170
3	(174)	533	264	–	264	809	1,073
–	(1,932)	11,874	6,973	–	6,973	–	6,973

Total revenues	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year	Other income items net of income taxes	Comprehensive income
49,151	406	–	403	–	403

7.5 Equity investments: changes during the year

	31/12/2019	31/12/2018
A. **Opening balance**	**220,957**	**217,634**
B. **Additions**	**75,561**	**8,365**
B.1 Purchases	56,730	1,800
B.2 Write-backs	–	–
B.3 Revaluations	49	40
B.4 Other changes	18,782	6,525
C. **Decreases**	**1,909**	**5,042**
C.1 Disposals	1,301	–
C.2 Adjustments	–	–
C.3 Writedowns	–	–
C.4 Other changes	608	5,042
D. **Closing balance**	**294,609**	**220,957**
E. **Total revaluations**	**–**	**–**
F. **Total adjustments**	**(447)**	**(447)**

This item passes from € 220.957 million to € 294.609 million.

Purchases refer for € 54.131 million to the increase in the interest in Arca Holding S.p.A. and for € 2.599 to the acquisition of an interest in Cossi S.p.a.

Other increases and decreases derive from the measurement of affiliates under the equity method, as well as from the calling up of tenths to be paid.

Disposals relate to the partial disposal of the equity investment in Cossi Costruzioni S.p.A.

7.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined as described in Part A – Accounting policies

7.7 - 7.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.a. granted when this company started up as part of the reorganisation of Banca Italease S.p.a., against which the Parent Company has made a specific risk provision.

Section 9 *Property, equipment and investment property - line item 90*

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

Assets/Values	31/12/2019	31/12/2018
1. **Owned assets**	**262,571**	**265,084**
a) land	70,390	69,678
b) buildings	174,213	177,376
c) furniture	5,228	5,230
d) IT equipment	2,606	2,174
e) other	10,134	10,626
2. **Rights of use acquired through leases**	**222,814**	**–**
a) land	–	–
b) buildings	222,362	–
c) furniture	–	–
d) IT equipment	210	–
e) other	242	–
Total	**485,385**	**265,084**
of which: obtained by enforcing guarantees received	–	–

The 2018 data is not fully comparative following the entry into force of IFRS 16 from 1 January 2019.

9.4 Investment property: analysis of assets carried at fair value

	31/12/2019			31/12/2018		
Assets/Values	L1	L2	L3	L1	L2	L3
1. **Owned assets**	**–**	**–**	**62,787**	**–**	**–**	**63,077**
a) land	–	–	–	–	–	–
b) buildings	–	–	62,787	–	–	63,077
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**62,787**	**–**	**–**	**63,077**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.

9.6 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2019**
A. **Opening gross amount**	**69,760**	**302,934**	**37,093**	**31,955**	**92,698**	**534,440**
A.1 Total net reductions in value	(82)	(125,558)	(31,863)	(29,781)	(82,072)	(269,356)
A.2 Opening net amount	69,678	177,376	5,230	2,174	10,626	265,084
FTA IFRS 16 Effects	–	225,449	–	214	226	225,889
Opening net amount after FTA IFRS 16	**69,678**	**402,825**	**5,230**	**2,388**	**10,852**	**490,973**
B. **Additions**	**712**	**26,411**	**1,362**	**1,509**	**5,845**	**35,839**
B.1 Purchases	615	19,828	1,333	1,368	5,730	28,874
B.2 Capitalised improvement expenditure	–	3,416	–	–	–	3,416
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	97	1,326	23	56	37	1,539
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	1,841	6	85	78	2,010
C. **Decreases**	**–**	**32,660**	**1,364**	**1,081**	**6,322**	**41,427**
C.1 Disposals	–	–	2	–	37	39
C.2 Depreciation	–	30,103	1,348	1,080	6,273	38,804
C.3 Impairment charges booked to:	–	2,300	–	–	–	2,300
a) equity	–	–	–	–	–	–
b) income statement	–	2,300	–	–	–	2,300
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	4	–	–	–	4
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	253	14	1	12	280
D. **Closing net balance**	**70,390**	**396,576**	**5,228**	**2,816**	**10,375**	**485,385**
D.1 Total net reductions in value	(82)	(152,205)	(33,380)	(30,076)	(86,524)	(302,267)
D.2 Closing gross amount	70,472	548,781	38,608	32,892	96,899	787,652
E. **Valuation at cost**	**70,390**	**396,576**	**5,228**	**2,816**	**10,375**	**485,385**

The net opening amounts are different to the net closing amounts reported in the prior year following the entry into force on 1 January 2019 of IFRS 16.

9.7 Investment property: changes during the year

	Total 31/12/2019	
	Land	Buildings
A. **Opening balance**	**–**	**63,077**
B. **Additions**	**–**	**133**
B.1 Purchases	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	133
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**423**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	423
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**62,787**
E. **Valuation at fair value**	**–**	**62,787**

9.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 4.138 million.

Section 10 Intangible assets - line item 100

10.1 Intangible assets: breakdown by type

	31/12/2019		31/12/2018	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**12,632**	**–**	**12,632**
A.1.1 attributable to the banking group	–	12,632	–	12,632
A.1.2 attributable to minority interests	–	–	–	–
A.2 **Other intangible assets**	**18,554**	**–**	**20,627**	**–**
A.2.1 Carried at cost:	18,554	–	20,627	–
a) Intangible assets generated internally	248	–	–	–
b) Other assets	18,306	–	20,627	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other	–	–	–	–
Total	**18,554**	**12,632**	**20,627**	**12,632**

Intangible assets comprise € 18.554 million mainly for the cost of purchasing software with a finite life that is amortised over that same period, normally 3 years, and goodwill for €

12.632 million. The accounting treatment of goodwill is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. Goodwill concerns:

- Factorit S.p.a., acquired in 2010. The Parent Company booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.
- Prestinuova S.p.a., acquired on 23 July 2018. This company operates in the granting of loans repayable by assigning a fifth of one's salary or pension. The acquisition took place on payment of a consideration of € 53 million. The company's equity on acquisition amounted to € 40 million with a difference of € 14 million. After an initial recognition in the consolidated interim report at 30 September 2018 of a provisional goodwill of € 14 million, in the months following the acquisition, the Group carried out the activities to determine the fair value of assets and liabilities, which led to the recognition of effective goodwill of € 5 million on the acquisition.

After a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of the various items of goodwill that had been booked.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing of goodwill to identify any impairment, did not reveal any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 1.5% per year and a cost of capital used to discount future dividends of 7.70% for Factorit S.p.a. and 9.03% for Prestinuova S.p.a.

The value in use amounted to € 209 million, with a surplus over its share of equity plus goodwill of € 56 million for Factorit Spa.

The value in use of Prestinuova S.p.A. amounted to € 257 million, with a surplus of € 174 million.

10.2 Intangible assets: change in the year

	Goodwill	Other intangible assets generated internally: Specified	Other intangible assets generated internally: Unspecified	Other intangible: assets: other: Specified	Other intangible: assets: other: Unspecified	Total 31/12/2019
A. **Opening balance**	**12,632**	**–**	**–**	**198,121**	**–**	**210,753**
A.1 Total net reductions in value	–	–	–	(177,494)	–	(177,494)
A.2 Opening net amount	12,632	–	–	20,627	–	33,259
B. **Additions**	**–**	**256**	**–**	**15,528**	**–**	**15,784**
B.1 Purchases	–	–	–	15,468	–	15,468
B.2 Increases in internally generated intangible assets	–	256	–	6	–	262
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	52	–	52
B.6 Other changes	–	–	–	2	–	2
C. **Decreases**	**–**	**8**	**–**	**17,849**	**–**	**17,857**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	8	–	17,837	–	17,845
- Amortisation	–	8	–	17,837	–	17,845
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	12	–	12
D. **Closing net balance**	**12,632**	**248**	**–**	**18,306**	**–**	**31,186**
D.1 Total net reductions in value	–	(8)	–	(195,331)	–	(195,339)
E. **Closing gross amount**	**12,632**	**256**	**–**	**213,637**	**–**	**226,525**
F. **Valuation at cost**	**12,632**	**248**	**–**	**18,306**	**–**	**31,186**

Key
Specified: Specified duration
Unspecified: unspecified duration

Section 11 *Tax assets and liabilities - asset line item 110 and liability line item 60*

11.1 Deferred tax assets: breakdown

	31/12/2019	31/12/2018
- Loan writedowns	356,503	356,098
- Provisions for risks and charges	28,600	28,542
- Deferred charges	117	214
- Securities and equity investments	2,705	23,913
- Administrative expenses, amortisation and depreciation	21,716	19,094
- Tax losses	4,683	5,345
Total	**414,324**	**433,206**

In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Group has recognised deferred tax assets (DTA) totalling € 414.324 million. Of these, € 24.102 million relate to equity accounts, € 338.418 million comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, € 51.804 million, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the various degrees of uncertainty. The ability of future taxable income to absorb the recovery of tax assets was checked over a reference period ending in 2024, with economic projects for 2020-2023 deriving from the latest business plan approved by the Board of Directors. The profitability expected in 2024 was estimated with reference to a prudent projection of the results expected in 2023. The incidence of permanent IRES and IRAP adjustments on pre-tax income and total income was calculated with reference to historical data for 2015-2019, applying normalisation rules to the tax disallowances in prior years in order to determine a pro forma taxable income for those years consistent with the current tax regulations, while also eliminating any non-recurring or extraordinary components from the prior-year taxable amounts. The probability test relating to the deferred tax assets was carried out separately, due to the different conditions of use of the underlying temporary differences, for the Group entities participating in the tax consolidation: the parent company, Banca della Nuova Terra S.p.a. and Factorit S.p.a.

11.2 Deferred tax liabilities: breakdown

	31/12/2019	31/12/2018
- Owned buildings	8,851	9,257
- Revaluation of securities and gains	12,002	6,158
- Loans	8,354	10,100
Total	**29,207**	**25,515**

11.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2019	31/12/2018
1. **Opening balance**	**393,219**	**390,892**
2. **Increases**	**11,472**	**16,051**
2.1 Deferred tax assets arising during the year	10,056	9,497
a) relating to prior years	–	126
b) due to changes in accounting	732	–
c) write-backs	–	–
d) other	9,324	9,371
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,416	6,554
3. **Decreases**	**14,469**	**13,724**
3.1 Deferred tax assets eliminated during the year	10,853	13,317
a) reversals	10,853	12,098
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	1,219
3.2 Reduction in tax	–	–
3.3 Other decreases	3,616	407
a) transformation into tax credits as per Law 214/2011	–	407
b) other	3,616	–
4. **Closing balance**	**390,222**	**393,219**

11.4 Changes in deferred tax assets as per Law 214/2011

	31/12/2019	31/12/2018
1. **Opening balance**	**335,960**	**336,368**
2. **Increases**	**2,458**	**–**
3. **Decreases**	**–**	**408**
3.1 Reversals	–	1
3.2 Transformation into tax credits	–	407
a) resulting from operating losses	–	407
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**338,418**	**335,960**

11.5 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2019	31/12/2018
1. **Opening balance**	**17,437**	**15,708**
2. **Increases**	**1,283**	**4,443**
2.1 Deferred tax liabilities arising during the year	1,121	4,249
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,121	4,249
2.2 New taxes or increases in tax	–	–
2.3 Other increases	162	194
3. **Decreases**	**3,333**	**2,714**
3.1 Deferred tax liabilities eliminated during the year	3,065	2,712
a) reversals	3,065	1,449
b) due to changes in accounting policies	–	–
c) other	–	1,263
3.2 Reduction in tax rates	–	–
3.3 Other decreases	268	2
4. **Closing balance**	**15,387**	**17,437**

11.6 Change in deferred tax assets (with contra-entry to equity)

	31/12/2019	31/12/2018
1. **Opening balance**	**39,987**	**19,953**
2. **Increases**	**4,982**	**22,767**
2.1 Deferred tax assets arising during the year	3,569	21,938
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	3,569	21,938
2.2 New taxes or increases in tax rates	1,200	612
2.3 Other increases	213	217
3. **Decreases**	**20,867**	**2,733**
3.1 Deferred tax assets eliminated during the year	20,818	2,733
a) reversals	20,818	1,714
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	1,019
3.2 Reduction in tax rates	–	–
3.3 Other decreases	49	–
4. **Closing balance**	**24,102**	**39,987**

This amount relates to losses on securities measured at fair value through other comprehensive income and to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised.

11.7 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2019	31/12/2018
1. **Opening balance**	**8,078**	**19,604**
2. **Increases**	**9,461**	**4,167**
2.1 Deferred tax liabilities arising during the year	9,461	4,167
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	9,461	4,167
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**3,719**	**15,693**
3.1 Deferred tax liabilities eliminated during the	3,719	15,693
a) reversals	3,719	15,693
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**13,820**	**8,078**

This amount relates to the tax on the unrealised gains recognised in equity on financial assets measured at fair value through other comprehensive income.

Section 13 *Other assets - line item 130*

13.1 Other assets: breakdown

	31/12/2019	31/12/2018
Advances paid to tax authorities	48,867	51,954
Withholdings on interest due to customers	141	152
Tax credits and related interest	6,545	8,291
Current account cheques drawn on third parties	21,689	26,368
Current account cheques drawn on Group banks	309	1,005
Transactions in customers' securities	5,547	1,637
Inventories	37,070	33,110
Costs pertaining to the subsequent year	–	2,647
Advances to suppliers	1,200	1,377
Advances to customers awaiting collections	19,475	14,101
Miscellaneous debits in transit	29,672	57,429
Liquid assets serving pension and similar obligations	11,582	3,972
Accrued income not allocated	46,616	43,597
Prepayments not allocated	23,413	21,565
Differences on elimination	1,553	1,836
Residual items	75,821	79,323
Total	**329,500**	**348,364**

Liabilities and equity

Section 1 Financial liabilities measured at amortised cost - line item 10

1.1 Financial liabilities measured at amortised cost: breakdown of loans and receivables with banks

Type of transaction / Members of the Group	31/12/2019				31/12/2018			
	Book value	Fair Value			Book Level	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. **Due to central banks**	**2,713,646**	**-**	**-**	**-**	**4,613,420**	**-**	**-**	**-**
2. **Due to banks**	**1,614,063**	**-**	**-**	**-**	**1,552,416**	**-**	**-**	**-**
2.1 Current accounts and sight deposits	449,969	-	-	-	412,348	-	-	-
2.2 Fixed-term deposits	748,455	-	-	-	701,075	-	-	-
2.3 Loans	412,998	-	-	-	435,950	-	-	-
2.3.1 Repurchase agreements	-	-	-	-	100,034	-	-	-
2.3.2 Other	412,998	-	-	-	335,916	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Payables for leases	194	-	-	-	261	-	-	-
2.6 Other payables	2,447	-	-	-	2,782	-	-	-
Total	**4,327,709**	**-**	**-**	**4,327,709**	**6,165,836**	**-**	**-**	**6,165,836**

The prior-year comparative data is not consistent, following the entry into force on 1 January 2019 of IFRS 16.

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (TLTRO), for a total of € 2,700 million. The first was arranged in March 2017 for € 3,500 million with maturity in March 2021. The outstanding balance at year end is € 1,100 million following a partial repayment made in December. Again in December, a loan for € 1,600 million was arranged with maturity in December 2022, while a loan for € 1,100 million that was arranged on 23 June 2016, with maturity in June 2020, was repaid in full.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of loans and receivables with customers

Type of transaction / Members of the Group	31/12/2019				31/12/2018			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**27,760,407**	**-**	**-**	**-**	**27,482,070**	**-**	**-**	**-**
2. **Fixed-term deposits**	**1,201,862**	**-**	**-**	**-**	**1,046,988**	**-**	**-**	**-**
3. **Loans**	**514,100**	**-**	**-**	**-**	**7,085**	**-**	**-**	**-**
3.1 Repurchase agreements	509,383	-	-	-	100	-	-	-
3.2 Other	4,717	-	-	-	6,985	-	-	-
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. **Payables for leases**	**222,603**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
6. **Other payables**	**118,025**	**-**	**-**	**-**	**94,164**	**-**	**-**	**-**
Total	**29,816,997**	**-**	**-**	**29,816,997**	**28,630,307**	**-**	**-**	**28,630,307**

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of transaction / Members of the Group	31/12/2019				31/12/2018			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	2,711,879	2,598,332	154,687	–	2,349,650	2,156,641	186,234	–
1.1 structured	833,882	732,310	122,070	–	137,239	–	137,239	–
1.2 other	1,877,997	1,866,022	32,617	–	2,212,411	2,156,641	48,995	–
2. other securities	92,873	–	92,873	–	82,554	–	82,554	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	–	–	–	–	–	–	–	–
Total	**2,804,752**	**2,598,332**	**247,560**	**–**	**2,432,204**	**2,156,641**	**268,788**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the HI-MTF market (Multilateral Trading system).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to € 714.130 million and are made up of the loans indicated below:

- bond loan of € 7.438 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3.50%.
- bond loan of € 11.129 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3.50%.
- bond loan of € 11.976 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 3%.
- a bond of € 203.464 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%.
- a bond of € 275.431 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.
- a bond of € 204.692 million from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing – banks and customers

Liability / Amount	FTA Lease Liability	Financial flows	Interest	Other changes	Carrying amount at 31.12.2019
Buildings*	224,261	(23,579)	3,924	17,753	222,359
Cars	221	(138)	2	147	232
Other types	214	(88)	1	79	206
Total	**224,696**	**(23,805)**	**3,927**	**17,979**	**222,797**

* Including financial leases under IAS 17

At 31.12.2019, the weighted average of the marginal lessee loan rate applied to the leasing liabilities in the balance sheet is 1.72%

Analysis of leasing liability maturities

Liability / Residual duration	within 1 year	1 to 5 year	5 to 10 year	over 10 years
Buildings	23,865	94,103	87,966	39,708
Cars	121	111	–	–
Other types	90	119	–	–
Total	**24,076**	**94,333**	**87,966**	**39,708**

* Including financial leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amount	31/12/2019					31/12/2018				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	66,829	190	–	–	–	57,211	–	–
1.1 for trading	–	–	66,829	190	–	–	–	57,211	–	–
1.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total B	**–**	**–**	**66,829**	**190**	**–**	**–**	**–**	**57,211**	**–**	**–**
Total (A+B)	**–**	**–**	**66,829**	**190**	**–**	**–**	**–**	**57,211**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 4 *Hedging derivatives - line item 40*

4.1 Hedging derivatives: breakdown by type of hedge and by level

Underlying	Nominal value 31/12/2019	Fair Value 31/12/2018			Nominal value 31/12/2019	Fair Value 31/12/2017		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A) **Financial derivatives**	**274,553**	**–**	**11,320**	**–**	**412,814**	**–**	**16,826**	**–**
1) Fair value	274,553	–	11,320	–	412,814	–	16,826	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B) **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**274,553**	**–**	**11,320**	**–**	**412,814**	**–**	**16,826**	**–**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/ Type of hedge	Fair Value							Financial flows		
	Micro									
	Fixed-yield securities and interest rates	Variable-yield securities and stock indices	Currency and gold	Loans and receivables	Commodities	Other	Macro	Micro	Macro	Investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	11,320	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**11,320**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

Section 6 *Tax liabilities*

The line item amounts to € 46.050 million and relates for € 16.843 million to current taxes and for € 29.207 million to deferred taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 11 of these notes. The bank's tax years up to 2014 have been closed.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. No fee has been paid by the Group as the conditions for payment did not apply. The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a.

The real estate company Borgo Palazzo is in a dispute about a VAT refund currently pending at the Court of Cassation following a sentence by the Lombardy Regional Tax Commission that was unfavourable to the company.

Section 8 *Other liabilities*

8.1 Other liabilities: breakdown

	31/12/2019	31/12/2018
Amounts at the disposal of third parties	397,067	341,039
Taxes to be paid on behalf of third parties	49,011	49,449
Taxes to be paid	2,723	2,313
Employee salaries and contributions	23,025	14,447
Suppliers	19,118	13,693
Transit accounts for sundry entities	18,790	17,376
Invoices to be received	18,235	14,823
Credits in transit for financial transactions	2,024	7,014
Value date differentials on portfolio transactions	155,232	162,854
Directors' and statutory auditors' emoluments	1,167	1,236
Loans disbursed to customers to be finalised	9,895	6,847
Miscellaneous credit items being settled	26,806	28,924
Accrued expenses not allocated	15,545	13,865
Deferred income not allocated	16,530	14,891
Differences on elimination	2,387	4,280
Residual items	63,879	67,040
Total	**821,434**	**760,091**

This line item shows an increase of 8.07%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	31/12/2019	31/12/2018
A. **Opening balance**	**43,222**	**45,491**
B. **Additions**	**10,596**	**7,758**
B.1 Provisions for the year	7,975	7,711
B.2 Other changes	2,621	47
C. **Decreases**	**10,029**	**10,027**
C.1 Payments made	2,501	1,630
C.2 Other changes	7,528	8,397
D. **Closing balance**	**43,789**	**43,222**
Total	**43,789**	**43,222**

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2019	31/12/2018
1. **Provisions for credit risk related to commitments and financial guarantees given**	**20,439**	**22,615**
2. **Provisions on other commitments and other guarantees given**	**22,972**	**23,548**
3. **Pension and similar obligations**	**179,965**	**160,734**
4. **Other provisions for risks and charges**	**46,922**	**41,953**
4.1 legal disputes	26,185	22,503
4.2 personnel expenses	17,200	16,706
4.3 other	3,537	2,744
Total	**270,298**	**248,850**

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities. The figures for the company's pension funds include, in addition to the Parent Company's fund, the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	**Total**
A. **Opening balance**	**23,548**	**160,734**	**41,953**	**226,235**
B. **Additions**	**5,932**	**23,079**	**34,640**	**63,651**
B.1 Provisions	5,932	2,214	32,517	40,663
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	8,185	–	8,185
B.4 Other changes	–	12,680	2,123	14,803
C. **Decreases**	**6,508**	**3,848**	**29,671**	**40,027**
C.1 Utilisations during the year	–	3,842	25,174	29,016
C.2 Changes due to variations in the discount rate	–	–	–	–
C.3 Other changes	6,508	6	4,497	11,011
D. **Closing balance**	**22,972**	**179,965**	**46,922**	**249,859**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
Items/technical forms	First stage	Second stage	Third stage	**Total**
Commitments to make loans	6,937	1,994	792	9,723
Financial guarantees given	420	53	10,243	10,716
Total	**7,357**	**2,047**	**11,035**	**20,439**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The pension fund of € 179.965 million consists of the pension fund for the Parent Company's personnel of € 152.526 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of € 27.439 million.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The amount of the pension fund for the Parent Company's personnel is adjusted to take into account the closed group of members formed on 28/4/1993. This closed group comprises 355 employees and 291 pensioners.

Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract.

BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2019	**31/12/2018**
at 1 January	160,734	160,609
service cost	6,094	6,048
interest cost	2,232	2,370
actuarial gains/losses	14,044	671
payments	(8,906)	(3,947)
other provisions	5,767	(5,017)
At 31 December	**179,965**	**160,734**

10.5.3 Information on the fair value of plan assets

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2019	31/12/2018
Fixed-yield securities	102,311	97,829
Variable-yield securities	3,670	4,481
Mutual funds invested	10,921	15,455
Mutual funds invested in property	17,100	17,292
Balanced mutual funds	6,942	–
Other assets	11,582	3,972
Total	**152,526**	**139,029**

The amount of the fund increases by € 13.497 million, +9.71%.

Payments of benefits amount to € 3.842 million compared with € 3.650 million. The contributions paid by the employees totalled € 0.223 million (€ 0.228 million in the prior year).

10.5.4 Description of the principal actuarial assumptions

The assumptions adopted in the actuarial calculation are provided separately for the Parent Company and BPS Suisse SA:

Banca Popolare di Sondrio Scpa

	31/12/2019	31/12/2018
discount rate	0.73%	1.58%
expected increase in salaries	0.50%	0.50%
annual rate of inflation	1.50%	1.50%
underlying rate of pension increases	0.77%*	0.825%*

* average equalisation rate.

See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse)

	31/12/2019	31/12/2018
discount rate	0.20%	0.70%
expected increase in salaries	0.85%	0.85%
annual rate of inflation	–	–
underlying rate of pension increases	0.85%	0.85%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the base used for the valuation was also used as the base scenario and the two most significant assumptions were increased and decreased, obtaining the results shown below separately for Banca Popolare di Sondrio Scpa and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio Scpa

+0.25% increase in the discount rate, liability of € 135.129 million
-0.25% decrease in the discount rate, liability of € 147.048 million
+0.25% increase in the inflation rate, liability of € 143.118 million
-0.25% decrease in the inflation rate, liability of € 137.725 million

Banca Popolare di Sondrio (Suisse) SA

+0.50% change in the discount rate, liability of € 20.678 million
-0.50% change in the discount rate, liability of € 35.001 million
+0.50 change salary increase rate, liability of € 27.897 million
+0.50 change salary increase rate, liability of € 26.866 million

10.6 Provisions for risks and charges - other provisions

Items/Amounts	31/12/2019	31/12/2018
Legal disputes	26,185	22,503
Personnel expenses	17,200	16,706
Other provisions	3,537	2,744
Total	**46,922**	**41,953**

This increase of € 4.969 million arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2019 as the discount rate.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by € 0.494 million, + 2.96%.

Other provisions include the provision for charitable donations of the Parent Company consisting of an allocation of profits authorised by the shareholders which is used to make approved payments.

The increase of € 0.100 million reflects the allocation of 2018 profit, while the reduction of € 0.118 million was a consequence of payments made during the year.

Section 13 Group equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2019.

At the period-end, the Bank held treasury shares with a carrying value of € 25.374 million.

13.2 Share capital - Number of shares of the Parent Bank: change during the year

Items/Type	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	3,669,953	–
A.2 Shares in circulation opening balance	449,715,824	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- other	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**4,478**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	4,478	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,711,346**	**–**
D.1 Treasury shares (+)	3,674,431	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

13.3 Share capital: other information

It amounts to € 79.005 million, unchanged on last year.

13.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 1,261.548 million and increase by€ 104.094 million, + 8.99%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 30 million (it has been used for € 25.322 million).

Other reserves have risen from € 3.229 million a € 35.894 million as a consequence of the reclassification to other reserves of the merger surplus recognised by Banca della Nuova Terra S.p.A. following the absorption of PrestiNuova S.p.A.

Therefore line item 150 «Reserves» amounts to € 1,297.442 million, + 11.78%.

Section 14 *Non-controlling interests - Line item 190*

14.1 Detail of line item 210 «Minority interests»

The line item equity of minority interests amounts to € 95.041 million and is made up of the share capital of € 33.579 million, the share premium reserve of € 4.358 million, reserves of € 55.236 million, valuation reserves of € - 0.171 million and profits of € 2.039 million.

14.2 Equity instruments: breakdown and change in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 31/12/2019**	**Total 31/12/2018**
1. **Commitments to make loans**	**11,583,015**	**931,269**	**119,594**	**12,633,878**	**13,188,800**
a) Central banks	–	–	–	–	–
b) Public administrations	410,810	8,582	50	419,442	665,335
c) Banks	111,835	17,492	–	129,327	99,524
d) Other financial companies	1,029,125	2,904	23	1,032,052	912,127
e) Non-financial companies	8,949,674	773,179	113,539	9,836,392	10,275,503
f) Households	1,081,571	129,112	5,982	1,216,665	1,236,311
2. **Financial guarantees given**	**565,742**	**47,945**	**17,870**	**631,557**	**594,911**
a) Central banks	–	–	–	–	–
b) Public administrations	7,842	–	–	7,842	8,922
c) Banks	17,191	397	–	17,588	14,248
d) Other financial companies	179,818	16	210	180,044	175,521
e) Non-financial companies	292,280	42,221	16,831	351,332	325,369
f) Households	68,611	5,311	829	74,751	70,781

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

2. Other commitments and other guarantees given

	Nominal Value 31/12/2019	Nominal Value 31/12/2018
Other guarantees given	**2,837,143**	**2,835,823**
of which: impaired loans	65,653	74,807
a) Central banks	–	–
b) Public administrations	37,338	32,300
c) Banks	93,634	86,560
d) Other financial companies	58,279	58,885
e) Non-financial companies	2,465,000	2,486,849
f) Households	182,892	171,229
Other commitments	**3,256,864**	**3,155,958**
of which: impaired loans	109,366	90,999
a) Central banks	–	–
b) Public administrations	46,666	52,135
c) Banks	207,281	75,836
d) Other financial companies	49,879	45,811
e) Non-financial companies	2,872,969	2,911,719
f) Households	80,069	70,457

The data at 31/12/2018 has been restated as, following analysis, commercial guarantees have been reclassified as «other commitments and other guarantees given».

3. Assets lodged to guarantee the bank's liabilities and commitments

	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	75,173	14,785
2. Financial assets measured at fair value through other comprehensive income	510,383	1,438,072
3. Financial assets measured at amortised cost	7,325,983	6,129,608
4. Property, equipment and investment property	–	–
of which: property, equipment and investment property held as inventory	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

5. Management and intermediation for third parties

Type of service	Amount 31/12/2019
1. **Execution of orders on behalf of customers**	**1,039,020**
a) Purchases	588,395
1. settled	587,882
2. not settled	513
b) Sales	450,625
1. settled	449,732
2. not settled	893
2. **Portfolio management**	**1,485,037**
a) individual	1,485,037
b) collective	–
3. **Custody and administration of securities**	**49,773,629**
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,275,845
1. securities issued by consolidated companies	16,197
2. other securities	2,259,648
b) third-party securities on deposit (excluding portfolio management): other	17,768,241
1. securities issued by consolidated companies	2,125,087
2. other securities	15,643,154
c) third-party securities on deposit with third parties	19,930,669
d) own securities on deposit with third parties	9,798,874
4. **Other transactions**	**–**

6. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at (f = c-d-e) 31/12/2019**	**Net amount at (f = c-d-e) 31/12/2018**
1. Derivatives	6,988	–	6,988	4,462	955	1,571	1,566
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2019	**6,988**	**–**	**6,988**	**4,462**	**955**	**1,571**	**–**
Total 31/12/2018	**19,606**	**–**	**19,606**	**15,080**	**2,959**	**–**	**1,566**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements». In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at (f = c-d-e) 1/12/2019**	**Net amount at (f = c-d-e) 31/12/2018**
1. Derivatives	71,340	–	71,340	5,760	65,563	17	2,179
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/2019	**71,340**	**–**	**71,340**	**5,760**	**65,563**	**17**	**–**
Total 31/12/2018	**165,353**	**–**	**165,353**	**114,239**	**48,935**	**–**	**2,179**

PART C Information on the consolidated income statement

Section 1 Interest - line items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/12/2019	Total 31/12/2018
1. **Financial assets measured at fair value through profit or loss:**	**2,857**	**5,731**	**–**	**8,588**	**6,394**
1.1 Financial assets held for trading	599	–	–	599	490
1.2 Financial assets designated at fair value	–	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	2,258	5,731	–	7,989	5,904
2. **Financial assets measured at fair value through other comprehensive income**	**15,127**	**–**	**–**	**15,127**	**24,592**
3. **Financial assets measured at amortised cost:**	**30,166**	**498,914**	**–**	**529,080**	**569,084**
3.1 Loans and receivables with banks	3,158	9,265	–	12,423	13,332
3.2 Loans and receivables with customers	27,008	489,649	–	516,657	555,752
4. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**–**	**–**	**21**
6. **Financial liabilities**	**–**	**–**	**–**	**21,006**	**24,425**
Total	**48,150**	**504,645**	**–**	**573,801**	**624,515**
of which: interest and similar income on impaired financial assets	–	43,723	–	43,723	60,249
of which: interest income on finance leases	–	–	–	–	–

1.2 Interest and similar income: other information

1.2.1 Interest and similar income on foreign currency assets

Items	31/12/2019	31/12/2018
Interest and similar income on foreign currency assets	85,711	86,959

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	**Total 31/12/2019**	**Total 31/12/2018**
1. **Financial liabilities measured at amortised cost**	**(32,097)**	**(57,159)**	**–**	**(89,256)**	**(93,537)**
1.1 Due to central banks	(115)	–	–	(115)	(164)
1.2 Due to banks	(11,443)	–	–	(11,443)	(10,988)
1.3 Due to customers	(20,539)	–	–	(20,539)	(32,023)
1.4 Securities issued	–	(57,159)	–	(57,159)	(50,362)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**(19)**
5. **Hedging derivatives**	**–**	**–**	**(7,031)**	**(7,031)**	**(8,648)**
6. **Financial assets**	**–**	**–**	**–**	**(17,139)**	**(14,174)**
Total	**(32,097)**	**(57,159)**	**(7,031)**	**(113,426)**	**(116,380)**
of which: interest expense relating to lease liabilities	(3,927)	–	–	(3,927)	(1)

1.4 Interest and similar expense: other information

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2019**	**31/12/2018**
Interest and similar expense on foreign currency liabilities	(23,007)	(26,093)

1.5 Differentials on hedging transactions

Items	**31/12/2019**	**31/12/2018**
A. Positive differentials on hedging transactions	–	81
B. Negative differentials on hedging transactions	(7,031)	(8,729)
C. Balance (A-B)	(7,031)	(8,648)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2019	31/12/2018
a) **guarantees given**	**25,172**	**26,991**
b) **credit derivatives**	**-**	**-**
c) **management, intermediation and consultancy services:**	**96,038**	**89,993**
1. trading in financial instruments	3,190	3,305
2. trading in foreign currencies	-	-
3. portfolio management	9,922	10,359
3.1 individual	9,922	10,359
3.2 collective	-	-
4. custody and administration of securities	8,157	7,891
5. custodian bank	4,034	3,351
6. placement of securities	38,166	34,762
7. order receipt and transmission	9,158	9,460
8. consultancy	-	15
8.1 investments	-	15
8.2 corporate finance	-	-
9. distribution of third-party services	23,411	20,850
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	20,190	17,786
9.3 other products	3,221	3,064
d) **collection and payment services**	**93,055**	**87,331**
e) **services for securitisation transactions**	**-**	**-**
f) **services for factoring transactions**	**22,384**	**22,380**
g) **tax collection services**	**-**	**-**
h) **management of multilateral trading systems**	**-**	**-**
i) **management of current accounts**	**36,036**	**35,848**
j) **other services**	**70,935**	**73,603**
Total	**343,620**	**336,146**

The 2018 data has been made comparable by classifying the transaction and service commissions on foreign operations (e.g. credit transfers abroad) as income from collection and payment services, rather than as currency trading commissions.

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2019	31/12/2018
a) **guarantees given**	**(613)**	**(659)**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**(5,842)**	**(4,076)**
1. trading in financial instruments	(3,444)	(1,682)
2. trading in foreign currencies	–	–
3. portfolio	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(2,398)	(2,257)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	(137)
d) **collection and payment services**	**(11,707)**	**(11,035)**
e) **other services**	**(3,181)**	**(4,715)**
Total	**(21,343)**	**(20,485)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2019		31/12/2018	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,648	58	2,128	100
B. Financial assets mandatorily measured at fair value	–	693	–	4,787
C. Financial assets measured at fair value through other comprehensive income	1,106	13	22,039	13
D. Equity investments	36	–	30	–
Total	**2,790**	**764**	**24,197**	**4,900**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)]
1. **Financial assets held for trading**	**25,374**	**42,692**	**(1,954)**	**–**	**66,112**
1.1 Fixed-yield securities	939	8,277	–	–	9,216
1.2 Variable-yield securities	2,703	10,254	(1,708)	–	11,249
1.3 Mutual funds	784	282	(142)	–	924
1.4 Loans	–	–	–	–	–
1.5 Other	20,948	23,879	(104)	–	44,723
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(58)**
4. **Derivatives**	**424**	**26,256**	**(971)**	**(22,513)**	**3,194**
4.1 Financial derivatives:	424	26,256	(971)	(22,513)	3,194
- On debt securities and interest rates	–	9,496	(470)	(9,396)	(370)
- On equities and equity indices	160	14,828	(245)	(11,242)	3,501
- On currency and gold	–	–	–	–	(2)
- Other	264	1.932	(256)	(1,875)	65
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**25,798**	**68,948**	**(2,925)**	**(22,513)**	**69,248**

Net trading income has increased from € 19.826 million to € 69.248 million, with higher trading profits than in the prior year.

Net trading income in «other financial assets» is mainly made up of exchange gains.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2019	31/12/2018
A. **Income from:**		
A.1 Fair value hedging derivatives	5,633	5,817
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**5,633**	**5,817**
B. **Charges from:**		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(5,622)	(5,912)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(5,622)**	**(5,912)**
C. **Net hedging gains (losses) (A – B)**	**11**	**(95)**
of which: hedging result on net positions	–	–

Income include € 5.633 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 5.622 million at fair value. The net result of measuring the hedging structure at fair value is a positive balance of € 0.011 million.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2019			31/12/2018		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	23,056	–	23,056	2,240	(118)	2,122
1.1 Loans and receivables with banks	–	–	–	–	–	–
1.2 Loans and receivables with customers	23,056	–	23,056	2,240	(118)	2,122
2. Financial assets measured at fair value through other comprehensive income	12,896	(610)	12,286	10,704	(7,322)	3,382
2.1 Fixed-yield securities	12,896	(610)	12,286	10,704	(7,322)	3,382
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**35,952**	**(610)**	**35,342**	**12,944**	**(7,440)**	**5,504**
B. **Financial liabilities measured at amortised cost**	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	417	(3)	414	166	(183)	(18)
Total liabilities (B)	**417**	**(3)**	**414**	**166**	**(183)**	**(18)**

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit and loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Profit [(A+B)-(C+D)]
1. **Financial assets**	**24,970**	**4,602**	**(16,676)**	**(1,103)**	**11,793**
1.1 Fixed-yield securities	329	2,973	(1,844)	(284)	1,174
1.2 Variable-yield securities	–	5	(3)	–	2
1.3 Mutual funds	18,382	1,624	(2,053)	(819)	17,134
1.4 Loans	6,259	–	(12,776)	–	(6,517)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**278**
Total	**24,970**	**4,602**	**(16,676)**	**(1,103)**	**12,071**

Section 8 *Net adjustments for credit risk - line item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)		**Total 31/12/2019**	**Total 31/12/2018**
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. **Loans and receivables with banks**	**(956)**	**–**	**–**	**454**	**–**	**(502)**	**(72)**
- Loans	(467)	–	–	452	–	(15)	(64)
- Fixed-yield securities	(489)	–	–	2	–	(487)	(8)
of which: impaired loans acquired or originated	–	–	–	–	–	–	
B. **Loans and receivables with customers**	**(55,053)**	**(29,568)**	**(418,180)**	**79,526**	**209,704**	**(213,571)**	**(241,211)**
- Loans	(54,619)	(29,568)	(418,180)	79,002	209,704	(213,661)	(241,567)
- Fixed-yield securities	(434)	–	–	524	–	90	356
of which: impaired loans acquired or originated	(197)	–	(31,834)	8,625	4,782	(18,625)	(29,554)
Total	**(56,009)**	**(29,568)**	**(418,180)**	**79,980**	**209,704**	**(214,073)**	**(241,283)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)			
	First and second stage	Third stage		First and second stage	Third stage	**Total 31/12/2019**	**Total 31/12/2018**
		Write-off	Other				
A. **Debt securities**	**(244)**	**–**	**–**	**1,780**	**–**	**1,536**	**3,970**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Customers	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
Total	**(244)**	**–**	**–**	**1,780**	**–**	**1,536**	**3,970**

Adjustments concern the measurement of credit risk on debt securities classified as financial assets measured at fair value through other comprehensive income. Any impairment adjustments to variable-yield securities are recorded directly in equity.

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

9.1 Gains (losses) on contractual changes: breakdown

Contractual changes not resulting in derecognition amounted to € 3.288 million.

Section 12 *Administrative expenses - line item 190*

12.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2019	31/12/2018
1) **Employees**	**(250,984)**	**(237,669)**
a) wages and salaries	(160,967)	(157,004)
b) social security contributions	(39,647)	(38,971)
c) termination indemnities	(17)	(21)
d) pension expenses	(5,136)	(4,903)
e) provision for employee termination indemnities	(7,975)	(7,718)
f) provision for pension and similar obligations:	(11,351)	(3,998)
- defined contribution	–	–
- defined benefits	(11,351)	(3,998)
g) payments to external supplementary pension funds:	(3,866)	(3,736)
- defined contribution	(3,856)	(3,736)
- defined benefits	(10)	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(22,025)	(21,318)
2) **Other working personnel**	**(113)**	**(256)**
3) **Directors and Statutory Auditors**	**(2,592)**	**(2,617)**
4) **Retired personnel**	**–**	**–**
Total	**(253,689)**	**(240,542)**

12.2 Average number of employees by category

	31/12/2019	31/12/2018
1) **Employees**	**3,234**	**3,208**
a) Managers	39	38
b) Officials	787	783
c) Other employees	2,408	2,387
2) **Other personnel**	**4**	**5**

	31/12/2019	31/12/2018
- Actual number of employees	3,302	3,257
- Other personnel	4	4

12.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2019	31/12/2018
Service cost	2,276	2,471
Interest cost	2,074	1,708
Contributions from employees	(222)	(228)
Reductions and payments	7,223	47
Total charge to income statement (A)	11,351	3,998
Portion of yield from assets servicing the fund (B)	8,507	1,576
Total charge (A-B)	2,844	2,422

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Parent Company consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of € 8.507 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income and expense». The actuarial loss of € 8.186 million has not been charged to the income statement; rather, in accordance with IAS 19, it has been deducted from equity as shown in the statement of comprehensive income.

12.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

12.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2019	31/12/2018
Telephone, post and data transmission	(14,527)	(14,729)
Maintenance of property, equipment and investment property	(9,799)	(9,837)
Rent of buildings	(555)	(26,255)
Security	(5,155)	(5,799)
Transportation	(3,552)	(3,587)
Professional fees	(40,383)	(35,939)
Office materials	(2,251)	(2,488)
Electricity, heating and water	(5,713)	(4,970)
Advertising and entertainment	(3,969)	(4,385)
Legal	(15,678)	(15,016)
Insurance	(1,934)	(1,830)
Company searches and information	(7,594)	(7,602)
Indirect taxes and dues	(55,967)	(53,822)
Software and hardware rental and maintenance	(20,671)	(18,409)
Data entry by third parties	(2,194)	(1,952)
Cleaning	(6,065)	(5,803)
Membership fees	(2,130)	(2,005)
Services received from third parties	(10,149)	(7,689)
Outsourced activities	(23,052)	(21,320)
Deferred charges	(991)	(1,409)
Goods and services for employees	(1,411)	(1,707)
Other	(38,031)	(34,763)
Total	**(271,771)**	**(281,316)**

The information presented for the prior year is not comparable following the first-time application from 1 January 2019 of IFRS 16, because the Group has made the available election not to restate the comparative amounts. The main effect relates to the rent of buildings, the charge for which has fallen to € 0.555 million from € 26.255 million in 2018.

The above line item now only comprises expenditure under contracts not subject to IFRS 16, as explained more fully in Part A - Accounting policies - Other aspects.

Other expenses include € 29.970 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 13 *Net accruals to provisions for risks and charges - line item 200*

13.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

The net balance of € 2.258 million reflects the provisions made during the year, net of the use or release of provisions recorded in prior years.

13.2 Net provisions for other commitments to make loans and guarantees given: breakdown

The net balance of € 0.576 million reflects the provisions made during the year, net of the use or release of provisions recorded in prior years.

13.3 Net accruals to other provisions for risks and charges: breakdown

The net balance of € 12.273 million reflects the provisions made during the year, net of the use or release of provisions recorded in prior years.

Section 14 *Depreciation and net impairment losses on property, equipment and investment property - line item 210*

14.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c)**
A. **Property, equipment and investment property**				
1 For business purposes	(38,804)	(2,300)	–	(41,104)
- Owned	(16,652)	(2,300)	–	(18,952)
- Rights of use acquired t through leases	(22,152)	–	–	(22,152)
2 Investment property	–	–	–	-
- Owned	–	–	–	-
- Rights of use acquired through leases	–	–	–	-
3 Inventories	–	–	–	-
Total	**(38,804)**	**(2,300)**	**–**	**(41,104)**

The depreciation charged during the year on leased right-of-use assets amounted to € 22.152 million, compared with € 1.019 million in the prior year.

This change reflects the application from 1 January 2019 of IFRS 16.

See Part M - leasing disclosures in these explanatory notes for further information.

Section 15 *Amortisation and net impairment losses on intangible assets - line item 220*

15.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c)**
A. **Intangible assets**				
A.1 Owned	(17,916)	–	–	(17,916)
- Internally generated	(8)	–	–	(8)
- Other	(17,908)	–	–	(17,908)
A.2 Acquired under finance leases	–	–	–	–
Total	**(17,916)**	**–**	**–**	**(17,916)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 16 *Other operating income and expense - Line item 230*

16.1 Other operating expenses: breakdown

	31/12/2019	**31/12/2018**
Out-of-period expense	(3,905)	(6,398)
Other	(702)	(1,075)
Consolidation differences	(1,368)	(1,637)
Total	**(5,975)**	**(9,110)**

16.2 Other operating income: breakdown

	31/12/2019	**31/12/2018**
Recovery of charges on deposits and overdrafts	487	372
Recovery of expenses	309	444
Rental income from buildings	6,327	5,788
Recovery of taxes	45,494	43,995
Financial income of pension and similar obligations plan	7,546	598
Out-of-period income - other	4,428	2,663
Other	14,768	17,829
Consolidation differences	2,410	2,260
Total	**82,169**	**73,949**

Rental income from buildings includes € 0.187 million from the sub-lease of right-to-use assets.

Section 17 *Net gains (losses) on equity investments - line item 250*

17.1 Net gains (losses) on equity investments: breakdown

Income item/Segments	31/12/2019	31/12/2018
1) **Joint-ventures**		
A. **Income**	**15**	**17**
1. Revaluations	15	17
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(440)**	**(231)**
1. Write-downs	(440)	(231)
2. Impairment adjustments	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(425)**	**(214)**
2) **Associated companies**		
A. **Income**	**25,954**	**20,117**
1. Revaluations	25,954	19,316
2. Gains on disposal	–	801
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**–**	**–**
1. Write-downs	–	–
2. Impairment adjustments	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**25,954**	**20,117**
Total	**25,529**	**19,903**

Section 18 *Net result of fair value measurement of property, equipment and investment property and intangible assets - line item 260*

18.1 Net result of fair value measurement (or at revalued amount) of property, equipment and investment property and intangible assets: breakdown

Asset/Income item	Revaluations (a)	Writedowns (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a+b+c)
A. **Property, equipment and investment property**	**133**	**(423)**	**–**	**–**	**(290)**
A.1 For business purposes:	–	–	–	–	–
- Owned	–	–	–	–	–
- Rights of use acquired through leases	–	–	–	–	–
A.2 Investment property	133	(423)	–	–	(290)
- Owned	133	(423)	–	–	(290)
- Rights of use acquired through leases	–	–	–	–	–
A.3 Inventories	–	–	–	–	–
B. **Intangible assets**	**–**	**–**	**–**	**–**	**–**
B.1 Owned	–	–	–	–	–
- Internally generated	–	–	–	–	–
- Other	–	–	–	–	–
B.2 Purchased under finance leases	–	–	–	–	–
Total	**133**	**(423)**	**–**	**–**	**(290)**

Section 20 *Net gains on sales of investments - line item 280*

20.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2019	31/12/2018
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**14**	**26**
- Gains on disposal	16	31
- Losses on disposal	(2)	(5)
Profit (loss)	**14**	**26**

Section 21 *Income taxes - line item 300*

21.1 Income taxes: breakdown

Income items/Segments	31/12/2019	31/12/2018
1. Current taxes (-)	(54,529)	(34,791)
2. Change in prior period income taxes (+/-)	(2,323)	(83)
3. Reduction in current taxes (+)	155	2,170
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	407
4. Change in deferred tax assets (+/-)	(914)	379
5. Change in deferred tax liabilities (+/-)	2,089	3,193
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(55,522)	(28,725)

This line item comes in at € 55.522 million, up by 93.28%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 28.48% compared with 20.13%.

21.2 Reconciliation between the theoretical and current tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

Profit before tax	**194,996**
DIRECT TAXES	-
IRES and other direct taxes	51,124
Dividends (-)	(1,955)
Maxi depreciation	(435)
ACE incentives	(3,239)
Other changes (+/-)	(543)
TOTAL IRES	**44,951**
IRAP (REGIONAL BUSINESS TAX	
Theoretical taxation	9,397
Dividends	(254)
Personnel expenses	834
Administrative expenses	1,612
Depreciation and amortisation	293
Other operating income/expense	(784)
Other items	(526)
TOTAL IRAP	**10,571**
TOTAL INCOME TAXES	**55,522**

Income taxes are calculated in accordance with the respective national rates. For entities resident in Italy, the IRES rate is 24% with a surcharge for credit institutions of 3.50%.

The ordinary IRAP rate is 3.90% which rises to 4.65% for credit institutions with a further increase, on a regional basis, of a maximum of 0.92%.

Section 23 *Profit (loss) of the period of minority interests - Line item 340*

23.1 Detail of line item 330 «Profit (loss) of the period of minority interests»

Name of the businesses	31/12/2019	31/12/2018
Equity investments in consolidated companies with significant non-controlling interests		
FACTORIT SPA	2,039	3,158
Total	**2,039**	**3,158**

Section 25 *Earnings per share*

25.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2019	**31/12/2018**
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

25.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2019	**31/12/2018**
basic EPS - €	0.303	0.244
diluted EPS - €	0.303	0.244

PART D *Consolidated comprehensive income*

Analytical statement of consolidated comprehensive income

Items	31/12/2019	31/12/2018
10. **Profit for the year**	**139,474**	**113,962**
Other items of comprehensive income that will not be reclassified to profit or loss	(30,159)	9,648
20. **Variable-yield securities measured at fair value through other comprehensive income:**	**(19,163)**	**11,450**
a) change in fair value	21,580	11,450
b) transfer to other components of equity	(40,743)	-
30. **Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
a) change in fair value	-	-
b) transfer to other components of equity	-	-
40. **Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. **Property, equipment and investment property**	**-**	**-**
60. **Intangible assets**	**-**	**-**
70. **Defined-benefit plans**	**(16,363)**	**(805)**
80 **Non-current assets and disposal groups held for sale**	**-**	**-**
90. **Share of valuation reserves of equity investments valued at net equity**	**(34)**	**(69)**
100. **Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**5,402**	**(928)**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	57,688	(80,305)
110. **Hedges of foreign investments:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
120. **Exchange differences:**	**308**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	308	-
130. **Cash-flow hedges:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. **Hedging instruments (non-designated elements):**	**-**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
150. **Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**80,018**	**(111,223)**
a) changes in fair value	69,901	(85,426)
b) transfer to income statement	10,117	(24,817)
- adjustments for credit	(1,536)	(3,969)
- gains/losses on disposals	11,653	(20,848)
c) other changes	-	(980)
160. **Non-current assets and disposal groups held for sale:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
170. **Share of valuation reserves of equity investments valued at net equity:**	**5,976**	**(5,830)**
a) changes in fair value	5,976	(5,830)
b) transfer to income statement	-	-
- adjustments for impairment	-	-
- gains/losses on disposals	-	-
c) other changes	-	-
180. **Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**(28,614)**	**36,748**
190. **Total other income items**	**27,530**	**(70,657)**
200. **Comprehensive income (Item 10+190)**	**167,004**	**40,305**
210. **Consolidated comprehensive income pertaining to minority interests**	**2,002**	**3,188**
220. **Consolidated comprehensive income attributable to the Parent Company**	**165,001**	**40,117**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Parent Company's website,

Introduction

The Parent Company has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Company, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Company in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Company on individual cases of significant risk.

Section 1 *Risks of accounting consolidation*

QUALITATIVE INFORMATION

A. ASSET QUALITY

A.1 Impaired and performing loans: size, adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Performing past due exposures	Other performing exposures	**Total 31/12/2019**
1. Financial assets measured at amortised cost	668,058	814,203	56,182	293,977	32,367,646	34,200,066
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,503,777	2,503,777
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	35,178	355	10,068	292,911	338,512
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2019	**668,058**	**849,381**	**56,537**	**304,045**	**35,165,334**	**37,042,355**
Total 31/12/2018	**760,412**	**1,006,090**	**84,656**	**415,638**	**35,209,175**	**37,475,970**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired				Performing			**Total (net exposure)**
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortised cost	3,683,766	2,145,323	1,538,443	341,863	32,767,023	105,400	32,661,623	34,200,066
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,504,888	1,111	2,503,777	2,503,777
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	48,297	12,764	35,533	–	–	–	302,979	338,512
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 31/12/2019	**3,732,063**	**2,158,087**	**1,573,976**	**341,863**	**35,271,911**	**106,511**	**35,468,379**	**37,042,355**
Total 31/12/2018	**4,172,101**	**2,320,945**	**1,851,156**	**194,014**	**35,461,680**	**102,579**	**35,624,814**	**37,475,970**

The term «credit exposures» is understood to exclude equities and mutual funds.

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 341.214 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	8	96	113,694
2. Hedging derivatives	–	–	–
Total 31/12/2019	**8**	**96**	**113,694**
Total 31/12/2018	**9**	**83**	**170,440**

B. Information about structured entities (other than securitisation vehicles)

The Group does not have any structured entities for which this type of disclosure is applicable.

Section 2 *Risks of consolidation for supervisory purposes*

1.1. Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Company manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Company's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Company and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Company, allowing for differences in size and the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Company requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Methods for measuring expected losses

The methodological framework implemented by Banca Popolare di Sondrio to calculate the Expected Credit Loss (ECL) on its loan portfolio, in accordance with the requirements of IFRS 9 that came into force on 1 January 2018, is explained in the notes to the financial statements.

As part of its coordination activities, the Parent Company requires the subsidiaries to apply consistent methodology, also by using the same IT tools. At subsidiaries, the models used to calculate writedowns were developed to take account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures. This is consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with the writedown time horizon dependent on the staging of the position).

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Group defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of forward-looking type elements, with particular reference to scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in the methodological framework, the Bank has carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities (paper ESMA32 - 63 – 791 of 22 October 2019).

Given the importance that the Parent Company has to the Group numbers (the Parent Company's loss forecasts represent more than 95% of the Group's overall figures), please refer to the information already presented with reference to the separate financial statements.

As regards the other relevant subsidiaries, also in consideration of the characteristics of their credit portfolios and the reference geographical contexts, the analyses carried out do not show different results from those shown for the Parent Company.

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. impaired loans. More specifically, the expected losses on impaired loans at 31 December 2019 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (SUISSE) SA by means of monitoring tools that are substantially similar to those of the Parent Company, as described in the corresponding Section in the explanatory notes. Note that lending with mortgage backing or financial collateral is long-standing practice in Switzerland: in confirmation, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on residential property.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind.

The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

3. Impaired loans

3.1 Strategies and operational policies

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Company, as explained in the corresponding section of the notes on the Bank.

3.2 Write-off

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their write-off classification and management criteria into line with those of the Parent Company, as explained in the notes on the Bank.

3.3 Impaired financial assets purchased or originated

Also in this area, the Parent Company requires that the subsidiaries comply with the principles adopted by the Parent Company, which are adequately described in the notes on the Bank.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Please refer to the notes on the Bank, which explain the specific management and monitoring policies for these exposures that the Parent Company has extended to the subsidiaries.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends and economic distribution

A.1.1 Consolidation for supervisory purposes - Distribution of financial assets by past due bands (book values)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	115,598	28,503	4,377	34,874	64,125	46,321	13,358	33,493	1,074,374
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-	-	-
3. Financial assets being sold		-	-	-	-	-	-	-	-
Total 31/12/19	**115,598**	**28,503**	**4,377**	**34,874**	**64,125**	**46,321**	**13,358**	**33,493**	**1,074,374**
Total 31/12/18	**350,192**	**13,928**	**29,397**	**37,330**	**115,278**	**59,937**	**7,988**	**49,708**	**1,281,064**

A.1.2 Consolidation for supervisory purposes – Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total adjustments							
	Assets included in the first stage					Assets included in the second stage		
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold
Total opening adjustments	**49,193**	**2,578**	**-**	**-**	**51,771**	**50,747**	**69**	**-**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-
Cancellations other than by write-offs	(2,086)	-	-	-	(2,086)	-	-	-
Net adjustments for credit risk (+/-)	(28,955)	(1,516)	-	-	(30,471)	13,562	(20)	-
Contractual amendments without cancellation	293	-	-	-	293	(293)	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	21,734	-	-	-	21,734	1,241	-	-
Total closing adjustments	**40,179**	**1,062**	**-**	**-**	**41,241**	**65,257**	**49**	**-**
Collections against financial assets already written off	-	-	-	-	-	-	-	-
Write-offs charged directly to the income statement	-	-	-	-	-	-	-	-

A.1.3 Financial assets, commitments to grant loans and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	1,237,624	860,842	149,890	94,875	116,698	18,068
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	-
3. Financial assets being sold	–	–	–	–	–	-
4. Commitments to make loans and financial guarantees given	209,854	589,144	2,013	11,461	13,072	6,304
Total 31/12/2019	**1,447,478**	**1,449,986**	**151,903**	**106,336**	**129,770**	**24,372**
Total 31/12/2018	**1,213,003**	**1,671,447**	**312,910**	**102,200**	**205,334**	**34,153**

		Total adjustments						Total provisions on commitments to grant loans and financial guarantees given			
		Assets included in the third stage									
of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Of which: impaired financial assets purchased or originated	First stage	Second stage	Third stage	**Total 31/12/2019**
-	**50,816**	**2,312,486**	**-**	**-**	**2,312,486**	**-**	**122,698**	**5,016**	**1,415**	**16,290**	**2,437,794**
-	-	1,593	-	-	1,593	-	1,593	-	-	-	1,593
-	-	(2,052)	-	-	(2,052)	-	-	(5)	-	-	(4,143)
-	13,542	282,209	-	-	282,209	-	18,637	2,354	642	(5,254)	263,022
-	(293)	(3,068)	-	-	(3,068)	-	-	(21)	(11)	-	(3,100)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	(428,943)	-	-	(428,943)	-	-	-	-	-	(428,943)
-	1,241	(17,256)	-	-	(17,256)	-	(31,427)	13	1	-	5,733
-	**65,306**	**2,144,969**	**-**	**-**	**2,144,969**	**-**	**111,501**	**7,357**	**2,047**	**11,035**	**2,271,956**
-	-	19,982	-	-	19,982	-	-	-	-	-	19,982
-	-	29,481	-	-	29,481	-	-	-	-	-	29,481

A.1.4 Consolidation for supervisory purposes - On- and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure: Impaired	Gross exposure: Performing	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **On-balance sheet exposures**					
a) Non-performing loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	81	2	79	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	1,715,315	909	1,714,406	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**1,715,396**	**911**	**1,714,485**	**–**
B. **Off-balance sheet exposures**					
a) Impaired	–	–	–	–	–
b) Performing	–	469,387	168	469,219	–
Total (B)	**–**	**469,387**	**168**	**469,219**	**–**
Total (A+B)	**–**	**2,184,783**	**1,079**	**2,183,704**	**–**

On-balance sheet exposures include the loans and receivables with banks, shown under item 40 a), as well as other financial assets consisting of bank securities included in items 20 c), 30 and 40 of assets, excluding variable-yield securities. The off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.5 Consolidation for supervisory purposes - On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-offs*
	Impaired	Performing			
A. **On-balance sheet exposures**					
a) Non-performing loans	2,264,502	–	1,596,444	668,058	341,214
- of which: exposures subject to forbearance	272,728	–	178,062	94,666	35,756
b) Unlikely-to-pay loans	1,401,606	–	552,225	849,381	649
- of which: exposures subject to forbearance	754,754	–	297,858	456,896	163
c) Impaired past due exposures	65,955	–	9,418	56,537	–
- of which: exposures subject to forbearance	7,502	–	654	6,848	–
d) Performing past due exposures	–	310,633	6,667	303,966	–
- of which: exposures subject to forbearance	–	31,765	1,360	30,405	–
e) Other performing exposures	–	33,622,458	98,941	33,523,517	951
- of which: exposures subject to forbearance	–	734,548	17,159	717,389	951
Total (A)	**3,732,063**	**33,933,091**	**2,263,695**	**35,401,459**	**342,814**
B. **Off-balance sheet exposures**					
a) Impaired	312,482	–	33,776	278,706	–
b) Performing	–	19,865,996	9,468	19,856,528	–
Total (B)	**312,482**	**19,865,996**	**43,244**	**20,135,234**	**–**
Total (A+B)	**4,044,545**	**53,799,087**	**2,306,939**	**55,536,693**	**342,814**

On-balance sheet exposures include the customer loans shown in item 40 b) as well as other financial assets represented by non-bank securities included in items 20 c), 30 and 40 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**2,481,444**	**1,585,573**	**105,086**
- of which: sold but not eliminated from the balance sheet	–	9,733	1,632
B. **Increases**	**402,860**	**542,865**	**57,959**
B.1 transfers from performing loans	33,478	224,137	49,810
B.2 transfers from impaired financial a ssets purchased or originated	17	25,502	–
B.3 transfers from other categories of impaired exposures	244,311	44,874	236
B.4 contractual amendments not resulting in derecognition	–	–	–
B.5 other increases	125,054	248,352	7,913
C. **Decreases**	**619,802**	**726,832**	**97,090**
C.1 transfers to performing loans	–	94,341	9,373
C.2 write-off	428,792	163	–
C.3 collections	174,965	374,899	33,608
C.4 proceeds from disposals	4,633	5,053	–
C.5 losses on disposal	264	422	–
C.6 transfers to other categories of impaired exposure	–	235,464	53,956
C.7 contractual amendments not resulting in derecognition	–	2,106	–
C.8 other decreases	11,147	14,384	153
D. **Closing gross exposure**	**2,264,503**	**1,401,606**	**65,955**
- of which: sold but not eliminated from the balance sheet	–	7,887	850

A.1.7bis Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
A. **Opening gross exposure**	**815,569**	**629,886**
- of which: sold but not eliminated from the balance sheet	2,663	23,760
B. **Increases**	**469,429**	**407,423**
B.1 transfers from performing loans not subject to forbearance	39,932	254,540
B.2 transfers from performing loans subject to forbearance	80,887	–
B.3 transfers from loans subject to forbearance and impaired	–	78,757
B.4 other increases	348,610	74,126
C. **Decreases**	**250,014**	**270,996**
C.1 transfers to performing loans not subject to forbearance	–	116,387
C.2 transfers to performing loans subject to forbearance	78,757	–
C.3 transfers to loans subject to forbearance and impaired	–	80,887
C.4 write-offs	22,350	–
C.5 collections	99,468	51,947
C.6 proceeds from disposals	905	–
C.7 losses on disposal	188	–
C.8 other decreases	48,346	21,775
D. **Closing gross exposure**	**1,034,984**	**766,313**
- of which: sold but not eliminated from the balance sheet	2,647	25,668

A.1.9 Consolidation for supervisory purposes – Impaired on-balance sheet exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**1,721,031**	**112,123**	**579,483**	**208,780**	**20,430**	**912**
- of which: sold but not eliminated from the balance sheet	–	–	1,440	268	141	–
B. **Increases**	**389,355**	**96,675**	**200,658**	**145,242**	**6,759**	**645**
B.1 adjustments to impaired assets purchased or originated	–	–	1,593	–	–	–
B.2 other adjustments	195,166	24,358	175,514	99,319	4,648	448
B.3 losses on disposal	–	–	–	–	–	–
B.4 transfers from other categories of impaired exposures	105,574	26,193	13,619	558	94	–
B.5 contractual amendments not resulting in derecognition	–	–	–	–	–	–
B.6 other increases	105,574	46,124	9,932	45,365	2,017	197
C. **Decreases**	**513,942**	**30,736**	**227,916**	**56,164**	**17,771**	**903**
C.1 write-backs on valuation	37,214	–	27,867	18,330	113	103
C.2 write-backs due to collections	43,955	4,805	83,915	11,288	2,980	1
C.3 gains on disposal	2,114	–	1,124	–	–	–
C.4 write-offs	428,779	22,350	163	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	104,779	25,955	14,438	796
C.6 contractual amendments not resulting in derecognition	–	–	598	591	–	–
C.7 other decreases	1,880	3,581	9,470	–	240	3
D. **Total closing adjustments**	**1,596,444**	**178,062**	**552,225**	**297,858**	**9,418**	**654**
- of which: sold but not eliminated from the balance sheet	–	–	933	262	84	–

A.2.1 Consolidation for supervisory purposes - Distribution of financial assets, commitments to make loans and financial guarantees given: by external rating class (gross values)

Exposure	External rating classes							Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**31/12/2019**
A. **Financial assets measured at amortised cost**	**5,341,888**	**1,487,338**	**765,626**	**245,900**	**177,806**	**624**	**28,417,137**	**36,436,319**
- First stage	5,341,888	1,487,305	730,822	221,791	163,229	5	21,431,490	29,376,530
- Second stage	–	–	34,804	24,109	14,577	619	3,300,624	3,374,733
- Third stage	–	33	–	–	–	–	3,685,023	3,685,056
B. **Financial assets measured at fair value through other comprehensive income**	**1,654,902**	**194,978**	**514,535**	**128,359**	**–**	**–**	**12,114**	**2,504,888**
- First stage	1,654,902	194,978	507,431	128,359	–	–	12,114	2,497,784
- Second stage	–	–	7,104	–	–	–	–	7,104
- Third stage	–	–	–	–	–	–	–	-
C. **Financial assets being sold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- First stage	–	–	–	–	–	–	–	-
- Second stage	–	–	–	–	–	–	–	-
- Third stage	–	–	–	–	–	–	–	-
Total (A+B+C)	**6,996,790**	**1,682,316**	**1,280,161**	**374,259**	**177,806**	**624**	**28,429,251**	**38,941,207**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	297,396	297,396
D. **Commitments to make loans and financial guarantees given**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- First stage	10,476	248,305	470,554	95,492	3,229	1,488	11,319,213	12,148,757
- Second stage	–	–	5,253	19,251	2,058	397	952,255	979,214
- Third stage	–	–	–	–	–	–	137,464	137,464
Total (D)10,476	**248,305**	**475,807**	**114,743**	**5,287**	**1,885**	**12,408,932**	**13,265,435**	
Total (A+B+C+D)	**7,007,266**	**1,930,621**	**1,755,968**	**489,002**	**183,093**	**2,509**	**40,838,183**	**52,206,642**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	CCC+ down-
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	CCC+ down-

A.2.2 Distribution of cash loans and off-balance sheet items by internal rating class

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Company.

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 11 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

CUSTOMERS – EXPOSURES	Rating 1	Rating 2	Rating 3	Rating 3G	Rating 4
A. **Financial assets measured at amortised cost**	**–**	**716**	**728,522**	**708,306**	**2,588,137**
- First stage	–	716	727,969	706,804	2,578,671
- Second stage	–	–	553	1,502	9,466
- Third stage	–	–	–	–	–
B. **Financial assets measured at fair value through consolidated profit or loss**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–
- Second stage	–	–	–	–	–
- Third stage	–	–	–	–	–
Total (A+ B)	**–**	**716**	**728,522**	**708,306**	**2,588,137**
of which: impaired financial assets purchased or originated	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**–**	**–**	**5,203**	**1,926**	**64,602**
- First stage	–	–	5,203	1,926	64,602
- Second stage	–	–	–	–	–
- Third stage	–	–	–	–	–
Total (C)	**–**	**–**	**5,203**	**1,926**	**64,602**
Total (A+ B + C)	**–**	**716**	**733,725**	**710,232**	**2,652,739**

The Parent Company uses internal ratings to calculate the capital requirements in relation to corporate and retail portfolios, for which its IRB models have been validated.

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

Internal rating classes							
Rating 4G	Rating 5	Rating 6	Rating 6G	Rating 7	Rating 8	Unrated	**Total 31/12/2019**
694,826	**121,325**	**28,160**	**10,262**	**24,175**	**15,116**	**492**	**5,340,209**
685,738	1,403	–	–	–	–	366	5,103,190
9,088	119,922	–	–	–	–	126	152,669
–	–	28,160	10,262	24,175	15,116	–	84,350
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
694,826	**121,325**	**28,160**	**10,262**	**24,175**	**15,116**	**492**	**5,340,209**
–	–	–	–	–	–	–	–
10,881	**–**	**11**	**–**	**–**	**–**	**185,699**	**291,238**
10,881	–	11	–	–	–	185,699	291,238
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
10,881	**–**	**11**	**–**	**–**	**–**	**185,699**	**291,238**
705,707	**121,325**	**28,171**	**10,262**	**24,175**	**15,116**	**186,191**	**5,631,447**

A.3.1 Consolidation for supervisory purposes – Guaranteed on- and off-balance sheet exposures to banks

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**27,691**	**27,683**	**–**	**–**	**–**	**–**
1.1. fully guaranteed	21,318	21,313	–	–	–	–
- of which: impaired	–	–	–	–	–	–
1.2. partially guaranteed	6,373	6,370	–	–	–	–
- of which: impaired	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**41,015**	**41,014**	**–**	**–**	**2,015**	**–**
2.1. fully guaranteed	18,501	18,500	–	–	149	–
- of which: impaired	–	–	–	–	–	–
2.2. partially guaranteed	22,514	22,514	–	–	1,866	–
- of which: impaired	–	–	–	–	–	–

A.3.2 Consolidation for supervisory purposes – Guaranteed on- and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**20,886,135**	**19,565,683**	**12,557,408**	**–**	**1,775,194**	**2,021,211**
1.1. fully guaranteed	19,981,411	18,760,781	12,552,971	–	1,696,698	1,977,087
- of which: impaired	2,519,429	1,360,872	1,160,256	–	11,972	17,806
1.2. partially guaranteed	904,724	804,902	4,437	–	78,496	44,124
- of which: impaired	152,034	55,959	3,518	–	7,166	643
2. **Guaranteed off-balance sheet exposures:**	**3,752,834**	**3,742,663**	**408,583**	**26,540**	**127,751**	**200,591**
2.1. fully guaranteed	3,056,149	3,047,481	407,475	26,540	103,370	64,491
- of which: impaired	104,936	98,558	13,765	–	610	1,126
2.2. partially guaranteed	696,685	695,182	1,108	–	24,381	136,100
- of which: impaired	14,349	13,670	–	–	223	400

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**34**	**–**	**27,098**	**–**	**27,132**
–	–	–	–	–	34	–	21,279	–	21,313
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,819	–	5,819
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**33,931**	**–**	**2,955**	**–**	**38,901**
–	–	–	–	–	16,179	–	2,173	–	18,501
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	17,752	–	782	–	20,400
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**238,231**	**163,261**	**276,540**	**2,274,658**	**19,306,503**
–	–	–	–	–	129,478	131,193	258,456	1,967,520	18,713,403
–	–	–	–	–	4,225	625	23,941	107,687	1,326,512
–	–	–	–	–	108,753	32,068	18,084	307,138	593,100
–	–	–	–	–	3,447	72	4,156	29,280	48,282
–	**–**	**–**	**–**	**–**	**9,718**	**163,861**	**98,050**	**2,408,403**	**3,443,497**
–	–	–	–	–	5,697	159,931	86,984	2,137,835	2,992,323
–	–	–	–	–	184	–	18,302	63,106	97,093
–	–	–	–	–	4,021	3,930	11,066	270,568	451,174
–	–	–	–	–	320	–	–	10,120	11,063

A.4 Consolidation for supervisory purposes - Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total writedowns	Book value	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**135,913**	**106,840**	**2,499**	**104,341**	**97,301**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/19	**135,913**	**106,840**	**2,499**	**104,341**	**97,301**
Total 31/12/18	**119,325**	**105,327**	**2,007**	**103,320**	**94,878**

B. Distribution and concentration of lending

Preparation of this section has excluded in the exposures reported in tables A.1.4. and A.1.5., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Consolidation for supervisory purposes - Distribution by sector of the on- and off-balance sheet exposures to customers

	Public administrations		Financial companies	
Exposures/Counterparties	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	–	–	9,354	43,173
- of which exposures subject to forbearance	–	–	406	6,018
A.2 Unlikely-to-pay loans	190	206	13,467	13,365
- of which exposures subject to forbearance	–	–	10,814	10,030
A.3 Past due exposures, impaired	3	–	7	–
- of which exposures subject to forbearance	–	–	–	–
A.4 Not impaired exposures	8,075,861	3,740	3,381,565	10,335
- of which exposures subject to forbearance	43,513	48	803	28
Total (A)	**8,076,054**	**3,946**	**3,404,393**	**66,873**
B. **Off-balance sheet exposures**				
B.1 Impaired exposures	50	–	100	325
B.2 Not impaired exposures	510,309	9	1,292,873	2,299
Total (B) 510,359	**9**	**1,292,973**	**2,624**	**9,969**
Total (A+B) 31/12/19	**8,586,413**	**3,955**	**4,697,366**	**69,497**
Total (A+B) 31/12/18	**10,554,545**	**3,628**	**4,453,091**	**66,366**

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	473,354	1,106,081	185,350	447,190
–	–	72,755	132,567	21,505	39,477
–	–	610,470	449,423	225,254	89,415
–	–	358,861	249,697	87,221	38,316
–	–	16,368	2,416	40,159	7,002
–	–	1,422	101	5,426	553
14,404	67	13,414,607	56,988	8,955,450	34,545
–	–	456,250	12,022	247,228	6,421
14,404	**67**	**14,514,799**	**1,614,908**	**9,406,213**	**578,152**
–	–	270,628	32,198	7,928	1,253
9,969	–	15,125,298	5,253	1,485,899	1,907
–	**15,395,926**	**37,451**	**1,493,827**	**3,160**	
24,373	**67**	**29,910,725**	**1,652,359**	**10,900,040**	**581,312**
21,780	**14**	**29,436,271**	**1,865,397**	**10,598,407**	**531,457**

B.2 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	663,573	1,550,148	4,479	41,897
A.2 Unlikely-to-pay loans	830,837	542,365	18,480	10,037
A.3 Past due exposures, impaired	29,428	3,666	27,052	5,743
A.4 Not impaired exposures	27,175,923	98,689	6,421,926	6,599
Total (A)	**28,699,761**	**2,194,868**	**6,471,937**	**64,276**
B. **Off-balance sheet exposures**				
B.1 Impaired exposures	278,615	33,770	91	6
B.2 Not impaired exposures	17,775,781	9,102	609,212	362
Total (B)	**18,054,396**	**42,872**	**609,303**	**368**
Total (A+B) 31/12/19	**46,754,157**	**2,237,740**	**7,081,240**	**64,644**
Total (A+B) 31/12/18	**48,320,609**	**2,397,421**	**6,502,539**	**64,568**

B.3 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to banks

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **On-balance sheet exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	1,290,441	832	355,667	61
Total (A)	**1,290,441**	**832**	**355,667**	**61**
B. **Off-balance sheet exposures**				
B.1 Impaired exposures	–	–	–	–
B.2 Not impaired exposures	195,809	155	220,167	11
Total (B)	**195,809**	**155**	**220,167**	**11**
Total (A+B) 31/12/19	**1,486,250**	**987**	**575,834**	**72**
Total (A+B) 31/12/18	**1,623,092**	**117**	**444,148**	**65**

B.4 Significant risks

	31/12/2019	**31/12/2018**
Number of positions	14	13
Exposure	15,159,408	16,116,251
Risk position	3,940,622	3,046,814

The exposure limit of 10% of own funds - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
6	536	–	3,852	–	11
63	7	–	–	1	–
48	6	9	3	–	–
114,967	79	44,351	120	70,316	121
115,084	**628**	**44,360**	**3,975**	**70,317**	**132**
–	–	–	–	–	–
25,043	2	3,663	2	680	–
25,043	**2**	**3,663**	**2**	**680**	**–**
140,127	**630**	**48,023**	**3,977**	**70,997**	**132**
113,398	**610**	**42,962**	**3,923**	**84,547**	**340**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
29,548	7	9,547	2	29,258	9
29,548	**7**	**9,547**	**2**	**29,258**	**9**
–	–	–	–	9	–
583	–	47,787	2	3,505	–
583	**–**	**47,787**	**2**	**3,514**	**–**
30,131	**7**	**57,334**	**4**	**32,772**	**9**
21,247	**9**	**10,562**	**1**	**2,935**	**(1)**

individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained. The above positions include the Republic of Italy (nominal exposure, 6,569 million; risk position, 23 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,720 million; risk position, 0 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	On-balance sheet exposure					
	Senior		Mezzanine		Junior	
Type of securitised assets/Exposures	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	31,128	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	174,894	162	–	–	–	–

The note linked with the securitisation by Bnt Portfolio SPV Srl is classified among the financial assets mandatorily measured at fair value through profit and loss. That fair value is indicated in the «Book value» column.

C.3 Banking group – Non-consolidated special purpose vehicle for securitisation

Name	Registered offices	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	265,186
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	235,992

C.4 Banking group – Non-consolidated special purpose vehicle for securitisation

Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated due to the absence of control, as defined by IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	17,619	175,057	–	75,156
–	13,784	326,090	–	–

D. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

D.1 Consolidation for supervisory purposes - Financial assets sold and recognised in full and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**51,668**	**–**	**51,668**	**–**	**51,672**	**–**	**51,672**
1. Fixed-yield securities	51,668	–	51,668	–	51,672	–	51,672
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
4. Derivatives	–	–	–	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**189,020**	**–**	**189,020**	**–**	**189,083**	**–**	**189,083**
1. Fixed-yield securities	189,020	–	189,020	–	189,083	–	189,083
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. **Financial assets measured at amortised cost**	**264,827**	**–**	**264,827**	**–**	**268,629**	**–**	**268,629**
1. Fixed-yield securities	264,827	–	264,827	–	268,629	–	268,629
2. Loans	–	–	–	–	–	–	–
Total 31/12/2019	**505,515**	**–**	**505,515**	**–**	**509,384**	**–**	**509,384**
Total 31/12/2018	**228,964**	**113,415**	**115,549**	**1,400**	**(147,614)**	**(47,480)**	**(100,134)**

D.3 Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Recognised in part	**Total 31/12/2019**	**Total 31/12/2018**
A. **Financial assets held for trading**	**51,668**	**–**	**51,668**	**–**
1. Fixed-yield securities	51,668	–	51,668	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**189,020**	**–**	**189,020**	**101**
1. Fixed-yield securities	189,020	–	189,020	101
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**268,525**	**–**	**268,525**	**242,725**
1. Fixed-yield securities	268,525	–	268,525	117,180
2. Loans	–	–	–	125,545
Total financial assets	**509,213**	**–**	**509,213**	**242,826**
Total associated financial liabilities	**(509,383)**	**–**	**(509,383)**	**(147,614)**
Net value 31/12/2019	**(170)**	**–**	**(170)**	**–**
Net value 31/12/2018	**95,212**	**–**	**–**	**95,212**

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

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

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

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

A fifth assignment of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018.

Lastly, a seventh assignment of performing loans for a total of € 352 million took place on 1 December 2019.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the

Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IFRS 9. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Annual	Coupon
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

E. Consolidation for supervisory purposes - models for the measurement of credit risk

The Group does not use internal portfolio models for the assessment of credit risk (VaR methodology).

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a., Sinergia Seconda S.r.l. and Banca della Nuova Terra s.p.a. are not exposed to rate and price risk inherent to the trading portfolio, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in forward contracts on exchange rates.

The Swiss subsidiary is not exposed to price risk from the trading portfolio.

B. Management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

At a consolidated level, similarly to what exists at an individual level, the internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively :

– an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
– an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 1.2.2 below (interest rate risk and price risk of the bank book).

As regards the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets at a consolidated level similar to what was explained in the notes to the separate financial statements, to which reference should be made also for the characteristics of the internal model used for calculating Value at Risk (VaR).

In addition to the financial instruments exposed to price risk included in the Parent Company's trading portfolio for supervisory purposes, for interest rate risk, the model used also covers the subsidiary's forward contracts on exchange rates. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

As regards the second methodology, based on sensitivity analyses carried out through an Asset & Liability Management (ALM) procedure that is explained in the notes to the separate financial statements, the following year-end data relates solely to the fixed-yield securities held in the trading portfolio for supervisory purposes, lending and funding repo transactions (with underlying fixed-yield securities held in the trading portfolio for supervisory purposes), interest-rate options and interest-rate swaps held in the Parent Bank's trading portfolio.

The effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 21.194 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 6.557 million euro.

The effect of an instantaneous change in interest rates by +200 basis points on equity (also including forward rate agreements for both the Parent Company and the subsidiary Banca Popolare di Sondrio (SUISSE) SA) – the difference between the present value of assets and liabilities - would be a loss of 2,986 million, whereas a change in interest rates by -200 basis would result in a profit of 4.051 million euro.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,116,664**	**–**	**–**	**65,095**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	17,582	–	–	65,095	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	17,582	–	–	65,095	–	–	–
1.2 Other assets	–	1,099,082	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**51,672**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	51,672	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,878,997**	**1,298,462**	**668,576**	**916,005**	**183,076**	**140,284**	**–**
3.1 With underlying security	–	–	–	–	149	–	–	–
- Options	–	–	–	–	149	–	–	–
+ Long positions	–	–	–	–	149	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,878,997	1,298,462	668,576	915,856	183,076	140,284	–
- Options	–	3,299	5,669	4,397	139,638	152,636	140,256	–
+ Long positions	–	1,652	2,837	2,199	69,818	76,318	70,128	–
+ Short positions	–	1,647	2,832	2,198	69,820	76,318	70,128	–
- Other derivatives	–	3,875,788	1,292,793	644,179	776,218	30,400	28	–
+ Long positions	–	2,358,439	913,529	582,839	388,109	15,220	14	–
+ Short positions	–	1,517,349	379,264	61,340	388,109	15,220	14	–

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,711,753**	**963,444**	**692,695**	**6,057**	**1**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,711,753	963,344	692,695	6,057	1	–	–
- Options	–	4,032	16,447	3,612	1,128	–	–	–
+ Long positions	–	2,016	8,225	1,808	566	–	–	–
+ Short positions	–	2,016	8,222	1,804	562	–	–	–
- Other derivatives	–	2,707,721	946,897	689,083	4,929	1	–	–
+ Long positions	–	921,642	198,148	81,871	2,464	–	–	–
+ Short positions	–	1,786,079	748,749	607,212	2,465	1	–	-

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	33,977	8,469	2,257	5,107	5,054	1,848	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	679	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	8,000
- short positions	–	–	–	–	–	–	4,923
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**242**
1.1 Fixed-yield securities	208
1.2 Other assets	57
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**140**
3.1 With underlying security	–
– Options (on variable-yield securities)	–
+ Long positions	–
+ Short positions	–
– Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	140
– Opzioni	–
+ Long positions	7
+ Short positions	7
– Other derivatives	140
+ Long positions	563
+ Short positions	559
Total interest rate risk	**255**
A. **Variable-yield securities**	**892**
– Long positions	892
– Short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**19**
– Long positions	–
– Short positions	19
C. **Other derivatives on variable-yield securities**	**79**
– Long positions	79
– Short positions	–
D. **Derivatives on stock indices**	**–**
– Long positions	–
– Short positions	–
Total Price risk transactions table 2	**817**
Mutual funds	**375**
Forward contracts on other instruments (goods)	**–**
– Long positions	331
– Short positions	331
Options on other instruments (goods)	**–**
– Long positions	–
– Short positions	–
Total Price risk	**1,121**
Total Interest rate risk and price	**1,192**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	722
minimum	192
maximum	1,924

With regard to the distribution of VaR during the year, the average interest rate VaR for each of the twelve months in 2019 is shown below.

January	917
February	915
March	808
April	635
May	629
June	843
July	697
August	1,245
September	895
October	525
November	269
December	276

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 254 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 254 observations.

The following are the figures taken from the ALM procedure.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest-rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%. The scenarios used at 31/12/2019 did not include forward rate agreements.

In thousands of euro	Change in interest margin				
	From 31/01/2019 to 28/02/2019				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	20,878	21,208	20,878	21,537	24,481
negative parallel shift	–2,186	–2,393	–2,600	–2,186	–2,741
flat rotary shift	38,970	39,578	38,970	40,185	45,688
steep rotary shift	–2,789	–3,109	–3,429	–2,789	–5,058
short-term positive shift	40,375	41,007	40,375	41,640	47,342
short-term negative shift	–2,790	–3,110	–3,430	–2,790	–5,275
long-term positive shift	1,401	1,426	1,401	1,452	1,650
long-term negative shift	–179	–192	–204	–179	–215
medium-term positive shift	2,802	2,853	2,802	2,904	3,299
medium-term negative shift	–361	–386	–410	–361	–430
worst-case scenario	–2,790	–3,110	–3,430	–2,790	–5,275

In thousands of euro	Change in interest margin				
	From 31/03/2019 to 31/12/2019				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	21,194	22,646	21,039	25,190	23,529
negative parallel shift	–6,557	–2,480	–6,557	–1,681	–2,209
parallel shock up	21,194	31,749	21,194	35,726	32,304
parallel shock down	–6,557	–2,488	–6,557	–1,700	–2,213
steepener shock	–6,556	–1,717	–6,556	–1,070	–1,197
flattener shock	14,687	21,361	14,687	24,033	21,893
short shock up	20,237	28,733	20,237	32,299	29,449
short shock down	–6,556	–2,509	–6,556	–1,670	–2,411
worst-case scenario	–6,557	–2,509	–6,557	–1,700	–2,411

Effects of a change in interest rates on equity.

Equity is understood to be the difference between the present value of assets and liabilities items.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest-rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%.

In thousands of euro	Change in equity				
	From 31/01/2019 to 28/02/2019				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	–3,848	–4,021	–4,194	–3,848	–4,128
negative parallel shift	1,675	1,479	1,282	1,675	974
flat rotary shift	–6,000	–6,297	–6,594	–6,000	–6,403
steep rotary shift	2,207	1,975	1,743	2,207	1,772
short-term positive shift	–6,655	–6,973	–7,290	–6,655	–7,120
short-term negative shift	2,207	1,975	1,743	2,207	1,794
long-term positive shift	–794	–817	–840	–794	–867
long-term negative shift	179	167	155	179	175
medium-term positive shift	–1,534	–1,580	–1,626	–1,534	–1,679
medium-term negative shift	250	226	203	250	197
worst-case scenario	–6,655	–6,973	–7,290	–6,655	–7,120

In thousands of euro	Change in equity				
	From 31/03/2019 to 31/12/2019				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	–2,986	–3,636	–5,282	–2,353	–5,037
negative parallel shift	4,051	1,687	1,129	4,051	1,468
parallel shock up	–10,113	–12,407	–14,439	–10,113	–14,439
parallel shock down	4,049	1,687	1,129	4,049	1,468
steepener shock	3,553	1,267	890	3,553	981
flattener shock	–6,587	–7,381	–8,191	–6,587	–8,164
short shock up	–8,669	–10,139	–11,230	–8,669	–11,210
short shock down	4,405	1,872	1,129	4,405	1,862
worst-case scenario	–10,113	–12,407	–14,439	–10,113	–14,439

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	950
minimum	386
maximum	2,564

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	1,939
February	1,192
March	595
April	460
May	732
June	952
July	569
August	1,086
September	1,001
October	1,208
November	524
December	1,179

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 254 observations, while there were no days on which theoretical losses exceeded VaR.

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra s.p.a. is exposed to modest interest rate risk linked to its lending operations to customers and to its limited investment in securities, partially offset by fixed-term deposits.

Sinergia Seconda S.r.l. is not exposed to interest rate risk, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The principal sources of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA are fixed-interest mortgage loans, from fixed-term deposits from banks and from sight deposits from customers with appropriate modelling of maturities.

From a Group perspective, the internal processes for measuring, controlling and managing the interest rate risk of the banking portfolio make use of two separate monitoring systems managed by the Parent Company, using an integrated database at consolidated level, based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

The daily calculation of VaR is used to monitor the consolidated financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension and real estate funds; the related process of internal control and management of interest rate risk and price risk is similar to that detailed in the notes to the separate financial statements.

As regards the analysis of sensitivity using strategic ALM methodologies, please refer to the notes to the separate financial statements.

Similarly, the incremental improvements made to the internal processes for the management and control of interest-rate risk have expanded the set of risk indicators being monitored. Following the related resolution adopted by the Board of Directors on 20 December, the system of indicators used from 31 December 2019 revolves around a first set of summary metrics comprising five «complementary» risk indicators whose respective systems of thresholds are defined by the Board of Directors in the Risk Appetite

Framework on a consolidated basis, and a second set of metrics comprising three «operational» risk indicators whose limits are established by the Risks Committee, consistent with the risk appetite established by the Board. Two indicators in the first set of metrics monitor the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The other pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The other indicator of the first set of metrics is represented by the «Supervisory Outlier Test» described in paragraphs 113, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third indicator of the second set of metrics is represented by the «Supervisory Outlier Test» described in paragraphs 114, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

These indicators are monitored monthly, with the exception of the two indicators relating to the «Supervisory Outlier Test» for which monitoring is quarterly.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

The source of price risk for Banca Popolare di Sondrio (SUISSE) SA lies in variable-yield securities and mutual funds shown under «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income».

The measurement and control of price risk essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

With regard to the monitoring of investments, the model used covers the equity investments of the Parent Company, excluding investments in Banca Popolare di Sondrio (SUISSE) SA, Factorit s.p.a., Popso Covered Bond s.r.l., Sinergia Seconda s.r.l. and Banca della Nuova Terra s.p.a.; there is also the variable-yield security owned by the Swiss subsidiary classified as «Equity investments».

B. Fair value hedges

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company.

C. Cash flow hedges

The Group has not arranged any cash-flow hedges.

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**131,657**	**171,365**	**50,673**	**192,095**	**3,316**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	131,657	171,365	50,673	192,095	3,316	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	131,657	171,365	50,673	192,095	3,316	–	–
+ Long positions	–	116,086	158,467	–	–	–	–	–
+ Short positions	–	15,571	12,898	50,673	192,095	3,316	–	–
4. **Other off-balance sheet transactions**	**11,436**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	5,718	–	–	–	–	–	–	–
+ Short positions	5,718	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book: internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

The following information is taken from the ALM procedures of the Parent Company.

Effects of a change in interest rates over a twelve-month period on the future interest margin. The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest-rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%.

In thousands of euro	Change in equity				
	From 31/01/2019 to 28/02/2019				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	92,417	85,932	79,446	92,417	59,297
negative parallel shift	4,568	4,339	4,109	4,568	4,218
flat rotary shift	175,038	162,419	149,799	175,038	111,762
steep rotary shift	5,945	5,737	5,530	5,945	8,035
short-term positive shift	182,079	169,149	156,218	182,079	117,643
short-term negative shift	5,945	5,738	5,531	5,945	8,316
long-term positive shift	7,974	7,669	7,364	7,974	5,715
long-term positive shift	273	234	196	273	168
long-term negative shift	15,680	15,085	14,489	15,680	11,571
medium-term negative shift	562	516	470	562	444
worst-case scenario	273	234	196	273	168

In thousands of euro	Change in equity				
	From 31/03/2019 to 31/12/2019				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	34,168	132,380	34,168	162,522	110,501
negative parallel shift	–17,665	790	–17,665	4,055	4,055
parallel shock up	21,245	119,880	21,245	149,125	98,356
parallel shock down	–17,659	797	–17,659	4,064	4,064
steepener shock	–13,643	720	–13,643	2,882	2,882
flattener shock	16,930	95,225	16,930	118,785	76,680
short shock up	22,595	119,380	22,595	149,894	97,135
short shock down	–17,103	980	–17,103	4,762	4,762
worst-case scenario	–17,665	720	–17,665	2,882	2,882

Effects of a change in interest rates on equity.

Equity is understood to be the difference between the present value of assets and liabilities items.

The outcomes described below relate to hypothetical scenarios of different rate movements during the periods analysed. In particular, the scenarios used in the period from December 2018 to February 2019 reflect the different patterns of rate curve movement (parallel shift, short, medium and long-term rotation) described in the Standards for the interest-rate risk of the bank book issued by the Basel Committee in April 2016.

While the scenarios used from March 2019 include those contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest-rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

Following a resolution adopted by the Board of Directors on 20 December 2019, the rate scenarios used at 31/12/2019 included the minimum interest rates described in the above EBA Guidelines for the «Supervisory Outlier Test», replaced the previous minimum level of 0%.

	Change in equity				
In thousands of euro	**From 31/01/2019 to 28/02/2019**				
Exposure to risk	at period end	average	minimum	maximum	**31/12/2018**
positive parallel shift	–46,678	–57,107	–67,535	–46,678	–72,543
negative parallel shift	–96,503	–97,493	–98,483	–96,503	–100,134
flat rotary shift	–203,459	–220,577	–237,695	–203,459	–242,157
steep rotary shift	–97,512	–98,412	–99,312	–97,512	–92,428
short-term positive shift	–152,337	–170,679	–189,021	–152,337	–200,327
short-term negative shift	–122,387	–123,034	–123,681	–122,387	–123,572
long-term positive shift	98,417	96,224	94,031	98,417	93,090
long-term negative shift	–98,426	–99,231	–100,036	–98,426	–101,711
medium-term positive shift	234,182	230,598	227,015	234,182	223,200
medium-term negative shift	–122,625	–123,172	–123,720	–122,625	–124,857
worst-case scenario	–203,459	–220,577	–237,695	–203,459	–242,157

	Change in equity				
In thousands of euro	**From 31/03/2019 to 31/12/2019**				
Exposure to risk	at period end	average	minimum	maximum	at period start
positive parallel shift	–32,831	154,962	–32,831	285,675	79,214
negative parallel shift	–101,192	–65,321	–142,275	7,467	–132,491
parallel shock up	–3,303	182,788	–3,303	313,828	105,319
parallel shock down	–101,195	–65,324	–142,276	7,462	–132,493
steepener shock	97,591	117,956	93,879	158,914	95,415
flattener shock	–147,242	–33,090	–147,242	49,392	–59,091
short shock up	–77,933	40,711	–77,933	80,031	28,584
short shock down	11,758	–24,705	–47,442	11,758	–41,435
worst-case scenario	–147,242	–65,324	–147,242	7,462	–132,493

With respect to fixed-yield securities classified as «financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income» and «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	37,924
minimum	19,519
maximum	63,206

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	52,076
February	50,264
March	42,191
April	28,343
May	30,182
June	44,370
July	44,284
August	47,575
September	42,846
October	26,893
November	24,037
December	22,541

Price risk

With reference to the closing date, we report above all the VaR figures of variable-yield securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	1,413
Mutual funds	1,315
Total	**2,268**
Equity investments	**3,876**

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	2,759
minimum	1,320
maximum	4,185

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	3,651
February	3,180
March	2,456
April	1,876
May	2,260
June	2,845
July	2,901
August	3,510
September	3,007
October	2,910
November	2,111
December	2,365

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro. Sinergia Seconda s.r.l., Popso Covered Bond s.r.l. and Banca della Nuova Terra s.p.a. are not exposed to exchange rate risk, as they have no assets or liabilities in foreign currency.

Except with regard to securities held in its proprietary portfolio, Banca Popolare di Sondrio (SUISSE) SA enters into currency transactions to satisfy customers' requirements and to cover transitory treasury mismatches.

The measurement and control of exchange risk - with reference to the situation at year end - essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk.

Any intercompany transactions are eliminated.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

B. Hedging of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the Parent Company.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**716,965**	**78,809**	**14,685**	**4,907,633**	**16,092**	**37,004**
A.1 Fixed-yield securities	36,965	–	–	2,348	–	–
A.2 Variable-yield securities	32,145	–	–	8,708	–	–
A.3 Loans to banks	148,541	73,743	9,136	30,349	14,011	31,011
A.4 Loans to customers	498,998	4,964	5,549	4,198,233	2,080	5,979
A.5 Other financial assets	316	102	–	667,997	1	14
B. **Other assets**	**5,343**	**1,493**	**804**	**82,355**	**281**	**1,754**
C. **Financial liabilities**	**814,676**	**84,358**	**12,792**	**2,521,399**	**20,037**	**42,471**
C.1 Due to banks	274,655	13,193	700	678,268	3,402	8,864
C.2 Due to customers	540,021	71,165	12,092	1,804,770	16,635	33,607
C.3 Fixed-yield securities	–	–	–	20,899	–	–
C.4 Other financial liabilities	–	–	–	17,462	–	–
D. **Other liabilities**	**11,537**	**848**	**6**	**261,423**	**22**	**17**
E. **Financial derivatives**	**1,767,622**	**277,719**	**69,911**	**2,139,479**	**13,896**	**98,490**
- Options	18,815	598	–	–	–	–
+ long positions	12,316	299	–	–	–	–
+ short positions	6,499	299	–	–	–	–
- Other derivatives	1,748,807	277,121	69,911	2,139,479	13,896	98,490
+ long positions	951,092	140,986	32,880	17,059	8,820	52,594
+ short positions	797,715	136,135	37,031	2,122,420	5,076	45,896
Total assets	**1,685,716**	**221,587**	**48,369**	**5,007,047**	**25,193**	**91,352**
Total liabilities	**1,630,427**	**221,640**	**49,829**	**4,905,242**	**25,135**	**88,384**
Net balance (+/-)	**55,289**	**(53)**	**(1,460)**	**101,805**	**58**	**2,968**

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	251
Variable-yield securities	30
Net balance between other assets and liabilities	12,479
Financial derivatives	10,701
– Options	7
+ Long positions	220
+ Short positions	213
– Other derivatives	10,701
+ Long positions	6,533
+ Short positions	13,022
Total transactions table 1	**1,965**
– Interest Rate Swap	58
+ Long positions	1,409
+ Short positions	1,467
Total	**1,909**
Details of the principal	
US Dollars	576
Sterling	9
Japanese Yen	3
Swiss Francs	1,708
Canadian Dollars	–
Other currencies	4
Total	**1,909**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	2,082
minimum	1,245
maximum	3,427

With regard to the distribution of VaR during the year, the average VaR for each month in 2019 is presented below.

January	2,122
February	1,901
March	1,708
April	1,696
May	1,936
June	1,951
July	1,879
August	2,176
September	2,632
October	2,699
November	2,247
December	1,982

1.3 Derivative instruments and related hedging policy

1.3.1. Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

Underlying assets/Type of derivative	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,359,752**	**–**	**–**	**–**	**2,401,230**	**–**
a) Options	–	–	37,936	–	–	–	24,346	–
b) Swaps	–	–	1,321,816	–	–	–	2,376,884	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**19,500**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	19,500	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**4,078,173**	**–**	**–**	**–**	**4,170,072**	**–**
a) Options	–	–	42,431	–	–	–	26,646	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	4,035,742	–	–	–	4,143,426	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**34,495**	**–**	**–**	**–**	**9,368**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**5,491,920**	**–**	**–**	**–**	**6,580,670**	**–**

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Types of derivatives	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	8,470	–	–	–	487	–
b) Interest rate swaps	–	–	11,192	–	–	–	12,299	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	11,974	–	–	–	18,621	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	525	–	–	–	261	–
Total	**–**	**–**	**32,161**	**–**	**–**	**–**	**31,668**	**–**
2. **Negative fair value**								
a) Options	–	–	526	–	–	–	451	–
b) Interest rate swaps	–	–	10,638	–	–	–	11,787	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	55,345	–	–	–	44,720	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	509	–	–	–	253	–
Total	**–**	**–**	**67,018**	**–**	**–**	**–**	**57,211**	**–**

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,129,876	2,432	227,444
- positive fair value	–	5,963	15	5,272
- negative fair value	–	10,638	–	50
2) **Variable-yield securities and stock indices**				
- notional value	–	8,000	–	11,500
- positive fair value	–	7,945	–	160
- negative fair value	–	–	–	190
3) **Currency and gold**				
- notional value	–	3,587,115	30,463	460,596
- positive fair value	–	7,313	50	4,919
- negative fair value	–	53,683	339	1,610
4) **Commodities**				
- notional value	–	18,075	–	16,421
- positive fair value	–	335	–	190
- negative fair value	–	191	–	318
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	105,055	1,206,438	48,259	1,359,752
A.2 Financial derivatives on variable-yield securities and stock indices	–	11,500	8,000	19,500
A.3 Financial derivatives on currency and gold	4,071,108	7,065	–	4,078,173
A.4 Financial derivatives on commodities	33,889	606	–	34,495
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2019	**4,210,052**	**1,225,609**	**56,259**	**5,491,920**
Total 31/12/2018	**5,266,309**	**1,246,386**	**67,973**	**6,580,668**

1.3.2. Accounting hedges

QUALITATIVE INFORMATION

Fair value hedges

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements. Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company.

Note that the Group has opted to continue applying IAS 39.

B. Cash flow hedges

The Group has not arranged any cash-flow hedges.

C. Hedges of foreign investments

The Group did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

Financial hedging derivatives

A.1 Financial hedging derivatives: notional values at period end

Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**274,553**	**–**	**–**	**–**	**412,814**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	274,553	–	–	–	412,814	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**274,553**	**–**	**–**	**–**	**412,814**	**–**

A.2 Financial hedging derivatives: gross positive and negative fair value

Underlying assets/Type of derivative	Total 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	–	–	–	–	–	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) *Other*	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Negative fair value**								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	11,320	–	–	–	16,826	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) *Other*	–	–	–	–	–	–	–	–
Total	**–**	**–**	**11,320**	**–**	**–**	**–**	**16,826**	**–**

A.3 OTC Financial hedging derivatives – notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	274,553	–	–
- positive fair value	–	–	–	–
- negative fair value	–	11,320	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**	**–**	**–**	**–**	**–**
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial hedging derivatives: notional amounts

Underlyings/residual life	Within 12 months	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	79,141	192,095	3,317	274,553
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2019	**79,141**	**192,095**	**3,317**	**274,553**
Total 31/12/2018	**148,372**	**261,248**	**3,195**	**412,815**

1.3.3. Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,404,429	2,432	227,444
- net positive fair value	–	5,963	15	5,272
- net negative fair value	–	21,958	–	50
2) **Variable-yield securities and stock indices**				
- notional value	–	8,000	–	11,500
- net positive fair value	–	7,945	–	160
- net negative fair value	–	–	–	190
3) **Currency and gold**				
- notional value	–	3,587,115	30,463	460,596
- net positive fair value	–	7,313	50	4,919
- net negative fair value	–	53,683	339	1,610
4) **Commodities**				
- notional value	–	18,075	–	16,421
- net positive fair value	–	335	–	190
- net negative fair value	–	191	–	318
5) **Other**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
2) **Sale of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–

1.4 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The liquidity reserves in the form of assets eligible as collateral at the European Central Bank are mostly held by the Parent Company; the total value of the assets in question, net of haircuts, amounted to Euro 11,061 million, also including securities only temporarily held as collateral for repurchase agreements (Euro 988 million). Of the 11,061 million total, 7,287 were free and 3,774 used as collateral or pledged (including 1,896 million of A.Ba.Co. receivables).

As regards the Swiss subsidiary, it holds a bond portfolio mainly composed of securities eligible as collateral at the European Central Bank.

The Parent Company monitors liquidity risk at consolidated level on a daily basis.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**4,649,715**	**1,002,653**	**1,167,484**	**1,558,996**	**1,891,542**	**1,223,647**	**1,927,532**	**12,555,633**	**6,716,696**	**124,292**
A.1 Government securities	-	-	640	1,200	10,059	6,704	207,746	5,791,967	1,669,000	-
A.2 Other fixed-yield securities	119	-	80	1,292	213,282	10,326	157,075	540,032	726,016	-
A.3 Mutual funds	429,746	-	-	-	-	-	-	-	-	-
A.4 Loans	4,219,850	1,002,653	1,166,764	1,556,504	1,668,201	1,206,617	1,562,711	6,223,634	4,321,680	124,292
- Banks	106,647	132	453	21,619	10,314	21,176	29,931	-	-	80,548
- Customers	4,113,203	1,002,521	1,166,311	1,534,885	1,657,887	1,185,441	1,532,780	6,223,634	4,321,680	43,744
B. **Cash liabilities**	**26,098,882**	**556,127**	**25,740**	**61,667**	**748,817**	**337,262**	**156,142**	**5,340,453**	**369,413**	**-**
B.1 Deposits and current accounts	25,935,835	44,546	23,881	59,032	722,538	299,632	22,478	188,856	348	-
- Banks	322,393	12,075	21,001	35,414	152,398	11,058	112	185,916	348	-
- Customers	25,613,442	32,471	2,880	23,618	570,140	288,574	22,366	2,940	-	-
B.2 Fixed-yield securities	91,706	31	249	1,820	14,066	26,083	112,852	2,329,517	243,578	-
B.3 Other liabilities	71,341	511,550	1,610	815	12,213	11,547	20,812	2,822,080	125,487	-
C. **Off-balance sheet transactions**	**6,497,087**	**281,467**	**542,177**	**3,260,408**	**1,256,884**	**2,019,332**	**2,666,581**	**301,045**	**653,888**	**-**
C.1 Financial derivatives with exchange of capital	-	266,474	527,262	1,145,352	725,264	963,616	686,046	6,068	-	-
- Long positions	-	136,774	92,399	471,474	211,219	206,523	80,442	3,108	-	-
- Short positions	-	129,700	434,863	673,878	514,045	757,093	605,604	2,960	-	-
C.2 Financial derivatives without exchange of capital	30,829	-	-	-	-	-	-	-	-	-
- Long positions	19,675	-	-	-	-	-	-	-	-	-
- Short positions	11,154	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	6,466,258	14,993	14,915	2,115,056	531,620	1,055,716	1,980,535	294,977	653,888	-
- Long positions	34,852	9,194	3,299	2,068,955	440,085	992,586	1,907,969	290,091	653,888	-
- Short positions	6,431,406	5,799	11,616	46,101	91,535	63,130	72,566	4,886	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment.

The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Group for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**286,368**	**246,899**	**185,946**	**181,272**	**466,306**	**469,036**	**451,977**	**1,736,036**	**1,077,552**	**4,553**
A.1 Government securities	-	-	1,346	-	2,685	1,341	3,576	12,690	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	2,147	15,528	-	-
A.3 Mutual funds	35,610	-	-	-	-	-	-	-	-	-
A.4 Loans	250,758	246,899	184,600	181,272	463,621	467,695	446,254	1,707,818	1,077,552	4,553
- Banks	115,962	52,394	84,802	51,206	667	2,071	492	-	-	-
- Customers	134,796	194,505	99,798	130,066	462,954	465,624	445,762	1,707,818	1,077,552	4,553
B. **Cash liabilities**	**2,286,052**	**214,642**	**85,679**	**50,507**	**112,949**	**244,971**	**29,446**	**121,611**	**303,129**	**-**
B.1 Deposits and current accounts	2,286,007	214,549	85,633	49,882	78,958	238,722	23,450	111,790	302,524	-
- Banks	131,044	175,066	83,126	37,487	46,233	79,798	18,427	111,670	302,524	-
- Customers	2,154,963	39,483	2,507	12,395	32,725	158,924	5,023	120	-	-
B.2 Fixed-yield securities	45	37	46	74	175	5,353	5,895	9,058	166	-
B.3 Other liabilities	-	56	-	551	33,816	896	101	763	439	-
C. **Off-balance sheet transactions**	**12,421**	**265,080**	**525,616**	**1,143,061**	**730,429**	**965,171**	**695,445**	**6,057**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	265,076	525,482	1,142,091	728,554	963,345	692,696	6,057	-	-
- Long positions	-	129,024	433,995	672,285	536,110	756,977	609,021	3,030	-	-
- Short positions	-	136,052	91,487	469,806	192,444	206,368	83,675	3,027	-	-
C.2 Financial derivatives without exchange of capital	87	-	59	373	1,025	1,826	2,749	-	-	-
- Long positions	44	-	-	-	-	-	-	-	-	-
- Short positions	43	-	59	373	1,025	1,826	2,749	-	-	-
C.3 Deposits and loans to be received	1,780	-	-	-	-	-	-	-	-	-
- Long positions	890	-	-	-	-	-	-	-	-	-
- Short positions	890	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	10,554	4	75	597	850	-	-	-	-	-
- Long positions	4,828	-	-	-	-	-	-	-	-	-
- Short positions	5,726	4	75	597	850	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

«Section 4 - Operational Risks» in the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio explains the system of operational risk management adopted at Group level, which is applied by the subsidiaries, each in proportion to the nature and size of its activity.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the operational losses connected with the adoption of improper commercial and market practices and/or failure to respect the professional commitments made to customers, as evidenced most clearly by the prudent provisions made to cover legal disputes and business conduct claims.

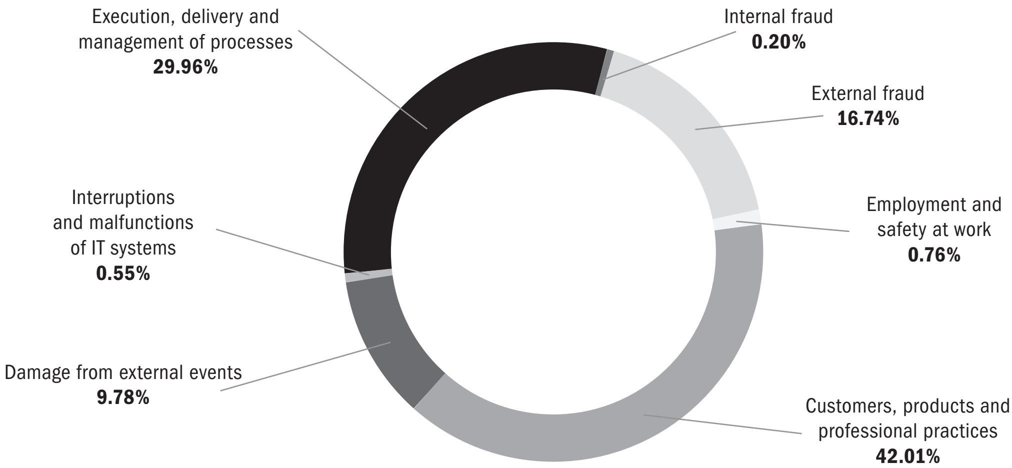
Total operational losses also include the effect of errors in the performance of daily activities, especially in the execution and completion of transactions or in the context of relations with counterparties other than customers, as well as those deriving from exogenous events, such as ATM robberies / break-ins, counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by specific insurance policies.

The following chart shows the operational losses recognised by the Group over the past five years (2015 – 2019) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event type):

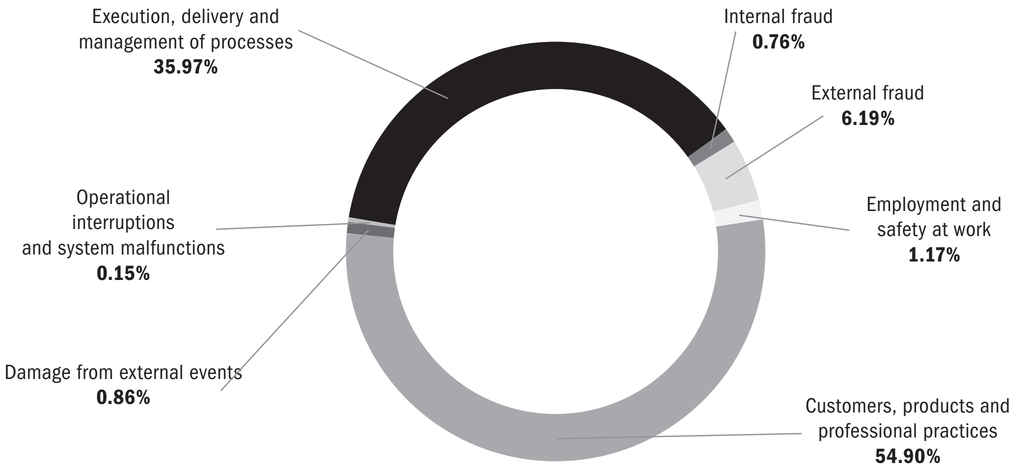
- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices – Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events – Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions – Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes – Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services.

Banca Popolare di Sondrio – Sources of operational losses (accounted for between 01/01/2015 and 31/12/2019)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



1.6 Banking group – Sovereign risk

Information on exposure to sovereign debt

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Banking Group as at 31/12/2019 amounted to € 8,495 million and was structured as follows:

a) Government securities: € 5,951 million;

b) Securities of other issuers: € 1,847 million;

c) Loans to government departments: € 78 million;

d) Loans to state-owned or local government-owned enterprises: € 435 million;

e) Loans to other public administrations and miscellaneous entities: €185 million.

PART F Information on consolidated equity

Section 1 Consolidated capital

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for the Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects its reputation.

The need for adequate capital was made even more evident by the crisis ten years ago and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis ten years ago brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Supervisory Bodies are focusing more and more on the capital adequacy of banks, seeking to ensure that it is proportionate to the overall degree of risk accepted.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations.

In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

Notably, the issues that have arisen in the financial markets, especially with regard to lending to customers, have adversely affected the profitability of banks and, consequently, the self-funding that in the past had always contributed significantly to their capitalisation. The ongoing difficulties experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The Extraordinary Meeting held on 27 April 2019 had authorised the Board of Directors to increase capital for payment, with the exclusion of pre-emption rights, by a maximum of € 40 million in order to service the acquisition of the majority of the share capital of Cassa di Risparmio Cento S.p.a. On 30 October 2018, Banca Popolare di Sondrio, Fondazione Cassa di Risparmio di Cento and Holding CR Cento Spa had signed the final contract for the acquisition of the majority of the share capital of Cassa di Risparmio di Cento. This acquisition was not completed however because, as communicated to the market on 17 October 2019, the conditions precedent were not satisfied.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many listed companies was less than their book value because of the current economic situation, recommended that they should carry out impairment tests as required by IAS 36. The Parent Company decided to carry out a second-level impairment test applied to the entire corporate structure rather than the individual asset by comparing the recoverable amount of the Group with the book value of shareholders' equity at 31/12/2019. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Group is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2019-2023), while maintaining an adequate level of capitalisation for expected future development and assuming a rate of the dividend growth after the explicit planning period of 1.50% per year and a cost of capital used to discount future dividends of 6.96%. The test carried out by the Planning and Investor Relations Department in conjunction with the Corporate Finance Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 3,817 million, with a surplus over its consolidated equity of € 975 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Company's capital and equity are described in Part B, Sections 15 and 16 of these notes to the financial statements.

B.1 Consolidated equity: breakdown by type of business

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83,363**
3. **Reserves**	**1,320,013**	**–**	**1,906**	**30,759**	**1,352,678**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,374)**	**–**	**–**	**–**	**(25,374)**
6. **Valuation reserve**	**(11,545)**	**–**	**192**	**4,297**	**(7,056)**
– Variable-yield securities measured at fair value through other comprehensive income	43,798	–	–	–	43,798
– Hedge of variable-yield measured at fair value through other comprehensive income	–	–	–	–	–
– Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	12,844	–	–	–	12,844
– Property, equipment and investment property	–	–	–	–	–
– Intangible assets	–	–	–	–	–
– Hedges of foreign investments	–	–	–	–	–
– Cash-flow hedges	–	–	–	–	–
– Hedging instruments (non-designated elements)	–	–	–	–	–
– Exchange differences	–	–	–	308	308
– Non-current assets and disposal groups held for sale	–	–	–	–	–
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–	–	–	–
– Actuarial profits (losses) related to defined-benefit pension plans	(68,187)	–	–	–	(68,187)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	3,989	3,989
– Special revaluation regulations	–	–	192	–	192
7. **Profit (loss)**	**121,631**	**–**	**(1,524)**	**19,367**	**139,474**
Total	**2,881,824**	**–**	**574**	**54,423**	**2,936,821**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

	Consolidation for supervisory purposes		Insurance companies		Other businesses		Consolidated eliminations and adjustments		**Total 31/12/2019**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	16,357	(3,513)	–	–	–	–	–	–	16,357	(3,513)
2. Variable-yield securities	56,945	(13,147)	–	–	–	–	–	–	56,945	(13,147)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2019	**73,302**	**(16,660)**	**–**	**–**	**–**	**–**	**–**	**–**	**73,302**	**(16,660)**
Total 31/12/2018	**70,249**	**(48,822)**	**–**	**–**	**–**	**–**	**–**	**–**	**70,249**	**(48,822)**

The 2018 has been restated to aggregate the data based on the unrealized gains and unrealized losses recognised in relation to individual securities.

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Loans
1. **Opening balance**	**(40,204)**	**61,631**	**–**
2. **Positive changes**	**57,998**	**32,979**	**–**
2.1 Increases in fair value	48,671	32,979	–
2.2 Adjustments for credit risk	244	–	–
2.3 Transfer to income statement of negative reserves from disposals	9,083	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	–	–
2.5 Other changes	–	–	–
3. **Negative changes**	**(4,950)**	**(50,812)**	**–**
3.1 Reductions in fair value	(1,887)	(12,898)	–
3.2 Write-backs for credit risk	(1,780)	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(1,283)	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	(37,914)	–
3.5 Other changes	–	–	–
4. **Closing balance**	**12,844**	**43,798**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 68.187 million and is made up of € 68.004 million attributable to the group and € 0.183 attributable to non-controlling interests.

The change of € 12.302 million compared with € 55.885 of the prior year derives from the recognition of actuarial gains and losses and the associated taxation.

Section 2 *Capital and capital adequacy ratios*

2.1 Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

2.2 Bank own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

- Common Equity Tier 1 (CET1);
- Additional Tier 1 (AT1).

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

- Share capital;
- Share premium reserve;
- Retained earnings;
- Valuation reserves - ex OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional arrangements (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

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

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016 larger banks have to include in or deduct from CET 1, respectively, their unrealised gains and losses arising from exposures to EU central administration classified in the portfolio measured at FVOCI (formerly AFS). The transition period prior to supervisory recognition of profits and losses on securities allocated to the portfolio of «Financial assets measured at fair value through other comprehensive income» ended at the start of 2018, with the consequence that these amounts are now added to/deducted from CET1 capital.

Following the introduction of the new IFRS 9, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 85% in 2019 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

In May 2019, the bank received authorisation from the ECB to use its internal rating system (AIRB) to measure capital requirements on credit risk; this AIRB method was applied for the first time in the context of the prudential reports as of 30 June 2019.

QUANTITATIVE INFORMATION

	31/12/2019	31/12/2018
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,821,704**	**2,652,172**
of which: CET1 instruments subject to transitional arrangements	–	–
B.1 Prudential filters of CET1 (+/-)	–	–
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,821,704**	**2,652,172**
D. **Elements to be deducted from CET1**	**113,745**	**50,121**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**4,372**	**33,645**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,712,331**	**2,635,696**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**9,191**	**9,042**
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)**	**9,191**	**9,042**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**499,047**	**350,838**
Of which: T2 instruments subject to transitional instructions	–	
N. **Elements to be deducted from T2**	**10,679**	**14,715**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**	**–**	**–**
P. **Total Tier 2 - T2 (M - N +/- O)**	**488,368**	**336,123**
Q. **Total Own funds (F + L + P)**	**3,209,890**	**2,980,861**

The composition of own funds takes account of the profit for the period to 30/09/2019, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.3 Capital adequacy

QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;

- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which from the current year is as follows:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

The European Central Bank used its powers and in February 2019 communicated the Supervisory Board's decision concerning the minimum capital requirements to be maintained at a consolidated level in 2019:

- a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
- a minimum requirement of Total Capital Ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (2.25%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

On 14 December 2019 the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 March, for the year 2020. The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 10%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (3%);
- a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2019, the Group expressed the following coefficients:

- CET 1 Capital ratio 15.75%;
- Tier 1 Capital ratio 15.80%;

- Total Capital ratio 18.64%.

On a fully-phased basis:

- CET 1 Capital ratio 15.72%;
- Tier 1 Capital ratio 15.78%;
- Total Capital ratio 18.61%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 6.02% applying the transitional criteria in force for 2019 and 6.01% under the definitive .

B. QUANTITATIVE INFORMATION

	Unweighted amounts		Weighted amounts / requirements	
Categories/Amounts	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	22,852,537	41,553,294	7,993,755	19,868,036
2. Approach based on internal ratings	–	–	–	
2.1 Basic	–	–	–	–
2.2 Advanced	23,098,504	–	7,131,447	–
3. Securitisations	206,228	263,375	173,392	234,064
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,223,888	1,680,168
B.2 Loan adjustment risk	–	–	1,786	864
B.3 Regulation risks	–	–	–	–
B.4 Market risks	–	–	–	–
1. Standard methodology	–	–	25,252	18,827
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk	–	–	–	–
1. Basic method	–	–	–	–
2. Standardised approach	–	–	127,029	124,760
3. Advanced method	–	–	–	–
B.6 Other calculation elements	–	–	–	–
B.7 Total precautionary requirements	–	–	1,377,955	1,752,618
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	17,224,432	21,907,727
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	15.75	12.03
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	15.80	12.07
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	18.64	13.61

PART G Operations of business divisions

Section 1 Operations realised during the year

Merger: absorption of Prestinuova S.p.a. by Banca della Nuova Terra S.p.a.

Description of the transaction

The year saw completion of the merger by which Prestinuova S.p.A. was absorbed by Banca della Nuova Terra.

Up to the date of the transaction, the Parent Company wholly owned both the merging company (Banca della Nuova Terra S.p.a.) and the company to be merged (Prestinuova S.p.A.).

Given that this situation is similar to the absorption of a wholly owned company, the simplified merger procedure envisaged by art. 2505 of the Civil Code was applied.

It should therefore be noted that no share exchange ratio was identified, but at the effective date of the merger all of the shares making up the share capital of the company being acquired, held by the sole shareholder, were cancelled without any increase in capital by Banca della Nuova Terra S.p.A.

On 10 June, the merger deed was signed by Banca della Nuova Terra S.p.A. and Prestinuova S.p.a. and registered with the Sondrio Companies Register on 24 June 2019.

From that date, the merger had legal effect pursuant to art. 2504 bis, paragraph 2, of the Civil Code.

It will take effect for income tax purposes from 1 January 2019, pursuant to point 9 of art. 172 of Presidential Decree 917/1986.

By combining the two companies, both controlled 100% by the Parent Company, the intention was to optimize the structure of the Group by concentrating the salary/pension-backed lending business in a single dedicated corporate vehicle.

Accounting for the transaction

IFRS do not prescribe a specific method for accounting for mergers between companies controlled by the same parent company. This type of transaction does not fall within the scope of IFRS 3 as it is a «common control transaction».

In this context, the Bank considered the use of the pooling/continuity of values method as the most appropriate accounting method for the merger of Banca della Nuova Terra S.p.a. with Prestinuova S.p.A.

As a result of applying this method, the carrying amounts of the assets and liabilities in Prestinuova's accounts at the merger date remain unchanged and are reflected in the financial statements of the entity that survives the merger.

Consequently, Banca della Nuova Terra S.p.a. has absorbed the carrying amount of the assets and liabilities of Prestinuova, in application of the pooling/continuity of values method, on the date of obtaining control in accordance with IFRS 10, which coincides with the effective date of the merger for legal purposes, namely 24 June 2019. Following the absorption of Prestinuova, an equity reserve was recorded include the result of the merged company for the period up to the effective date of the merger.

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	01/1/2019-31-12-2019	31/12/2021	248	-	-	16
STOPPANI LINO	Deputy Chairman	01/1/2019-31-12-2019	31/12/2019	135	-	-	15
PEDRANZINI MARIO ALBERTO	Director	01/1/2019-31-12-2019	31/12/2019	149	-	-	131
BIGLIOLI PAOLO	Director	01/1/2019-31-12-2019	31/12/2019	45	-	-	-
CARRETTA ALESSANDRO	Director	01/1/2019-31-12-2019	31/12/2020	44	-	-	-
CORRADINI CECILIA	Director	01/1/2019-31-12-2019	31/12/2019	46	-	-	-
CREDARO LORETTA	Director	01/1/2019-31-12-2019	31/12/2020	50	-	-	-
DEPPERU DONATELLA	Director	01/1/2019-31-12-2019	31/12/2020	46	-	-	-
FALCK FEDERICO	Director	01/1/2019-31-12-2019	31/12/2021	45	-	-	-
FERRARI ATTILIO PIERO	Director	01/1/2019-31-12-2019	31/12/2020	47	-	-	-
GALBUSERA CRISTINA	Director	01/1/2019-31-12-2019	31/12/2021	51	-	-	-
PROPERSI ADRIANO	Director	01/1/2019-31-12-2019	31/12/2020	47	-	-	-
RAINOLDI ANNALISA	Director	01/1/2019-31-12-2019	31/12/2019	54	-	-	-
ROSSI SERENELLA	Director	01/1/2019-31-12-2019	31/12/2021	46	-	-	-
TRIACCA DOMENICO	Director	01/1/2019-31-12-2019	31/12/2021	79	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	01/1/2019-31-12-2019	31/12/2020	95	-	-	8
VITALI LAURA	Serving Statutory Auditor	01/1/2019-31-12-2019	31/12/2020	71	-	-	-
ZOANI LUCA	Serving Statutory Auditor	01/1/2019-31-12-2019	31/12/2020	80	-	-	28
PEDRANZINI MARIO ALBERTO (*)	General Manager	01/1/2019-31-12-2019	-	-	90	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/1/2019-31-12-2019	-	-	54	187	924

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above.

The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.679 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.063 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	899	7,534	18	21	131	1,254
Statutory auditors	531	159	9	0	602	595
Management	100	1,316	1	5	475	0
Family members	2,683	13,006	55	45	1,124	14,396
Subsidiaries	3,931,390	88,964	6,554	332	2,056,756	11,237
Associated companies	671,553	339,735	3,002	253	382,926	1,525
Other related parties	110,299	7,227	630	8	100,617	14,455

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for € 346.6 million to Alba Leasing spa; assets with other related parties include loans of € 75.2 million granted to the affiliate Release spa.

PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Group's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Businesses*: these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of the above sub-segments for 2019 and 2018.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2019**
Interest income	317,605	279,730	–	125,559	722,894	-149,093	573,801
Interest expense	-37,656	-95,327	–	-129,536	-262,519	149,093	-113,426
Net interest income	**279,949**	**184,403**	**–**	**-3,977**	**460,375**	**–**	**460,375**
Fee and commission income	150,746	79,175	98,497	15,561	343,979	-359	343,620
Fee and commission expense	-6,401	-8,431	-5,582	-799	-21,213	-130	-21,343
Dividends and similar income	–	–	–	3,554	3,554	–	3,554
Net trading income	–	–	–	69,246	69,246	2	69,248
Net hedging gains (losses)	–	418	–	-407	11	–	11
Gains/losses from sales or repurchases	–	–	–	35,756	35,756	–	35,756
Net change in financial assets and liabilities carried at fair value	-7,996	1,479	–	18,589	12,072	–	12,072
Total income	**416,298**	**257,044**	**92,915**	**137,523**	**903,780**	**-487**	**903,293**
Adjustments to the net value of financial assets	-161,690	-52,426	–	-1,709	-215,825	–	-215,825
Net financial income	**254,608**	**204,618**	**92,915**	**135,814**	**687,955**	**-487**	**687,468**
Administrative expenses	-126,446	-165,969	-53,068	-125,268	-470,751	-54,709	-525,460
Provisions for risks and charges	-5,333	-291	–	-3,815	-9,439	–	-9,439
Depreciation and net impairment losses on property, equipment and investment property	-10,622	-15,545	-5,129	-9,808	-41,104	–	-41,104
Amortisation and net impairment losses on intangible assets	-4,446	-6,353	-2,063	-5,054	-17,916	–	-17,916
Other operating income/expense	7,034	7,227	-178	6,915	20,998	55,196	76,194
Net gains (losses) on equity investments	–	–	–	25,529	25,529	–	25,529
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-290	-290	–	-290
Net gains on sales of investments	–	–	–	14	14	–	14
Gross profit	**114,795**	**23,687**	**32,477**	**24,037**	**194,996**	**–**	**194,996**

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2018**
Interest income	345,360	278,687	–	137,833	761,880	-137,365	624,515
Interest expense	-34,509	-99,907	–	-119,329	-253,745	137,365	-116,380
Net interest income	**310,851**	**178,780**	**–**	**18,504**	**508,135**	**–**	**508,135**
Fee and commission income	150,370	79,867	93,943	12,898	337,078	-932	336,146
Fee and commission expense	-6,392	-8,478	-4,983	-516	-20,369	-116	-20,485
Dividends and similar income	–	–	–	29,097	29,097	–	29,097
Net trading income	–	–	–	19,151	19,151	675	19,826
Net hedging gains (losses)	–	520	–	-615	-95	–	-95
Gains/losses from sales or repurchases	–	–	–	5,486	5,486	–	5,486
Net change in financial assets and liabilities carried at fair value	-5,366	1,733	–	-8,224	-11,857	–	-11,857
Total income	**449,463**	**252,422**	**88,960**	**75,781**	**866,626**	**-373**	**866,253**
Adjustments to the net value of financial assets	-227,152	-13,474	–	474	-240,152	–	-240,152
Net financial income	**222,311**	**238,948**	**88,960**	**76,255**	**626,474**	**-373**	**626,101**
Administrative expenses	-130,825	-171,833	-55,111	-117,626	-475,395	-46,463	-521,858
Provisions for risks and charges	-10,701	-28	–	-238	-10,967	–	-10,967
Depreciation and net impairment losses on property, equipment and investment property	-4,285	-6,483	-2,065	-4,882	-17,715	–	-17,715
Amortisation and net impairment losses on intangible assets	-4,549	-7,038	-2,268	-3,419	-17,274	–	-17,274
Other operating income/expense	8,337	6,177	-237	3,726	18,003	46,836	64,839
Net gains (losses) on equity investments	–	–	–	19,903	19,903	–	19,903
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-368	-368	–	-368
Net gains on sales of investments	–	–	–	26	26	–	26
Gross profit	**80,288**	**59,743**	**29,279**	**-26,623**	**142,687**	**–**	**142,687**

A.2 Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2019**
Financial assets	17,496,848	11,629,662	–	8,865,099	37,991,609
Other assets	–	–	–	2,575,222	2,575,222
Property, equipment and investment property	124,840	180,394	59,015	183,923	548,172
Intangible assets	4,411	6,352	2,073	18,350	31,186
Financial liabilities	7,908,081	24,742,733	–	4,376,983	37,027,797
Other liabilities	18,946	1,783	–	846,755	867,484
Provisions	114,564	104,025	26,309	69,189	314,087
Guarantees given	2,925,402	432,075	–	111,222	3,468,699
Commitments	13,073,651	2,448,590	31,891	336,609	15,890,741

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2018**
Financial assets	16,717,886	11,328,194	–	10,330,118	38,376,198
Other assets	–	–	–	2,390,567	2,390,567
Property, equipment and investment property	56,467	83,219	26,138	162,337	328,161
Intangible assets	4,457	6,548	2,053	20,201	33,259
Financial liabilities	7,478,885	23,524,368	–	6,299,131	37,302,384
Other liabilities	15,563	1,187	–	773,108	789,858
Provisions	109,347	99,771	24,615	58,339	292,072
Guarantees given	2,999,686	330,241	–	100,807	3,430,734
Commitments	13,587,043	2,539,446	42,922	175,347	16,344,758

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: in particular, Factorit made an appreciable contribution, with a positive result in this area of 10,617 thousand euro, even if this was down on the previous year (-21.0%), mainly due to the contraction in the spread of loans which negatively affected net interest income.

This segment contributes 58.9% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 17,497 million and € 7,908 million respectively.

Net adjustments for the impairment of financial assets represent 38.8% of total income, while administrative expenses absorb 30.4%.

Comparison with the prior year shows a significant increase in the segment result (+34,507 thousand euro), mainly because of the Parent Company's contribution with a rise of 35,771 thousand euro, attributable above all to a combination of the following factors:

- a significant reduction in net interest income (-10.2%), in a context of significant decline in the spread on loans, where the main volumes are, while the spread on deposits, where volumes are much more limited, has remained more or less stable;
- substantial stability of commission flows (+0.4%), where there has been a significant increase in fees for collections and payments;
- a marked decrease in adjustments to financial assets (-30.1%), mainly thanks to a marked improvement in provisions and writebacks, the overall effect of which far exceeded the significant decrease in out-of-period income;
- a significant decrease in provisions for risks and charges (-77.9%).

Individuals and other customers: the Swiss subsidiary's contribution was decisive, with a positive result of 30,156 thousand euro in this area, up on the previous year (+10.6%), mainly due to the improvement in net interest income, commission flows and an appreciable decrease in adjustments to financial assets.

Also significant was the contribution made by BNT, which achieved a positive result of 7,799 thousand euro, thanks to the return on salary/pension-backed loans.

This segment contributes 12.2% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 11,630 million and € 24,743 million respectively.

Net adjustments for the impairment of financial assets represent 20.4% of the total income, while administrative expenses absorb 64.6%.

The comparison with the previous year highlights a significant contraction in the sector result (-36,056 thousand euro), mainly due to the performance of the parent company, only minimally offset by the positive dynamics of the subsidiaries, which recorded a decrease of

44,345 thousand euro, mainly attributable to synergies between the following factors:

- substantial stability of net interest income (-0.6%), due to a slight improvement in the funding spread, but where the most substantial volumes were recorded, substantially offset by the significant contraction in the spread on loans, which have much lower volumes;
- a significant reduction in commission flows (-3.2%), attributable in particular to the dynamics attributable to loans, endorsement loans and currency transactions;
- a marked increase in adjustments to financial assets (-40,859 thousand euro), due to a significant increase in provisions while there has been a reduction in out-of-period income.

Securities: This segment contributes 16.7% of overall results.

Administrative expenses absorb 57.1% of total income.

Comparison with the prior year shows a significant increase in the segment result (+10.9%), only because of the Parent Company's contribution with a rise of 3,747 thousand euro, mainly due to the significant increase in commission flows (+5.6%), attributable to the significant growth in the sectors involved in investment funds and insurance products;

Central functions: this segment's contribution to the overall result is 12.3%. The subsidiaries show a contribution of -24,572 thousand euro overall, down on the y/y comparison (-25.6%).

Comparison with the previous year highlights a marked increase in the result, mainly due to the contribution of the Parent Company, where there was an increase of 45,408 thousand euro, attributable essentially to the particularly positive return on securities trading which, in a favourable market context, turned in higher profits and capital gains; this positive trend is partially offset both by a contraction in net interest income, due to a lower coupon flow, and by the lower contribution of dividends due to the lack of the extraordinary component that was booked in 2018 (Nexi spa).

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the Parent Company and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2019**
Interest income	588,626	72,942	64,521	726,089	-152,288	573,801
Interest expense	-230,655	-15,889	-17,281	-263,825	150,399	-113,426
Net interest income	**357,971**	**57,053**	**47,240**	**462,264**	**-1,889**	**460,375**
Fee and commission income	270,820	51,405	24,065	346,290	-2,670	343,620
Fee and commission expense	-13,290	-6,963	-2,523	-22,776	1,433	-21,343
Dividends and similar income	12,906	–	13	12,919	-9,365	3,554
Net trading income	49,145	–	20,673	69,818	-570	69,248
Net hedging gains (losses)	–	–	418	418	-407	11
Gains/losses from sales or repurchases	35,756	–	–	35,756	–	35,756
Net change in financial assets and liabilities carried at fair value	11,855	284	-54	12,085	-13	12,072
Total income	**725,163**	**101,779**	**89,832**	**916,774**	**-13,481**	**903,293**
Adjustments to the net value of financial assets	-146,050	-68,959	-864	-215,873	48	-215,825
Net financial income	**579,113**	**32,820**	**88,968**	**700,901**	**-13,433**	**687,468**
Administrative expenses	-372,084	-40,209	-58,875	-471,168	-54,292	-525,460
Provisions for risks and charges	-9,051	2,467	-2,787	-9,371	-68	-9,439
Depreciation and net impairment losses on property, equipment and investment property	-36,741	-3,186	-4,622	-44,549	3,445	-41,104
Amortisation and net impairment losses on intangible assets	-13,230	-1,348	-1,401	-15,979	-1,937	-17,916
Other operating income/expense	21,517	3,619	140	25,276	50,918	76,194
Net gains (losses) on equity investments	-235	–	–	-235	25,764	25,529
Net result of fair value measurement of property, equipment and investment property and intangible assets	-290	–	–	-290	–	-290
Net gains on sales of investments	14	–	–	14	–	14
Gross profit	**169,013**	**-5,837**	**21,423**	**184,599**	**10,397**	**194,996**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2018**
Interest income	629,969	71,099	62,185	763,253	-138,738	624,515
Interest expense	-206,971	-28,776	-18,135	-253,882	137,502	-116,380
Net interest income	**422,998**	**42,323**	**44,050**	**509,371**	**-1,236**	**508,135**
Fee and commission income	263,889	52,338	22,834	339,061	-2,915	336,146
Fee and commission expense	-12,176	-7,248	-2,482	-21,906	1,421	-20,485
Dividends and similar income	45,396	–	13	45,409	-16,312	29,097
Net trading income	1,685	–	18,181	19,866	-40	19,826
Net hedging gains (losses)	–	–	520	520	-615	-95
Gains/losses from sales or repurchases	5,486	–	–	5,486	–	5,486
Net change in financial assets and liabilities carried at fair value	-12,246	148	472	-11,626	-231	-11,857
Total income	**715,033**	**87,560**	**83,588**	**886,181**	**-19,928**	**866,253**
Adjustments to the net value of financial assets	-193,477	-43,778	-2,241	-239,496	-656	-240,152
Net financial income	**521,555**	**43,783**	**81,347**	**646,685**	**-20,584**	**626,101**
Administrative expenses	-378,268	-42,426	-59,122	-479,816	-42,042	-521,858
Provisions for risks and charges	-2,175	-8,554	-18	-10,747	-220	-10,967
Depreciation and net impairment losses on property, equipment and investment property	-14,663	-1,323	-1,729	-17,715	–	-17,715
Amortisation and net impairment losses on intangible assets	-13,506	-1,389	-2,379	-17,274	–	-17,274
Other operating income/expense	18,002	3,387	433	21,822	43,017	64,839
Net gains (losses) on equity investments	443	–	–	443	19,460	19,903
Net result of fair value measurement of property, equipment and investment property and intangible assets	-368	–	–	-368	–	-368
Net gains on sales of investments	26	–	–	26	–	26
Gross profit	**131,046**	**-6,522**	**18,532**	**143,056**	**-369**	**142,687**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2019**
Financial assets	30,781,484	2,867,970	4,342,155	37,991,609
Other assets	1,872,838	–	702,384	2,575,222
Property, equipment and investment property	464,278	37,665	46,229	548,172
Intangible assets	28,299	1,333	1,554	31,186
Financial liabilities	24,171,704	8,162,884	4,693,209	37,027,797
Other liabilities	836,467	5,859	25,158	867,484
Provisions	247,304	35,806	30,977	314,087
Guarantees given	2,736,850	556,886	174,963	3,468,699
Commitments	13,146,568	2,505,861	238,312	15,890,741

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2018**
Financial assets	31,958,887	2,490,941	3,926,370	38,376,198
Other assets	1,753,129	–	637,438	2,390,567
Property, equipment and investment property	295,641	17,665	14,855	328,161
Intangible assets	30,761	1,397	1,101	33,259
Financial liabilities	24,578,687	8,509,719	4,213,978	37,302,384
Other liabilities	760,610	6,350	22,898	789,858
Provisions	230,697	37,039	24,336	292,072
Guarantees given	2,661,823	604,488	164,423	3,430,734
Commitments	13,091,971	3,035,260	217,527	16,344,758

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory instructions for banks» 4th update of 17 June 2014

This information is available (in Italian) in the Corporate Information section of the website www.popso.it.

PART M *Qualitative information*

QUALITATIVE INFORMATION

See Part A – Accounting policies – Other aspects for detailed information about the application of IFRS 16.

Based on the new standard, Banca Popolare di Sondrio has analysed the relevant contracts and grouped them into three separate categories:

a) buildings, which are the most significant group;

b) cars;

c) other types, including the rental of IT equipment and parking spaces with an immaterial effect.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. Bank policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with non-indexed monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the bank e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the group;
- extension and termination options: contracts signed by the group generally envisage giving 6 months' notice of termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantee of residual value: the group does not guarantee residual values;
- leases not yet signed: the group has not made any lease commitments that might be considered material for disclosure purposes;
- sale and leaseback transactions: the group is not party to transactions of this type.

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 9.1 - 9.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets and lease liabilities total 223 million euro.

Part C of the Notes to the financial statements contains the information about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

As indicated in Part A of the financial statements, the Bank applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to euro 187,759 in 2019.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS 16, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

Asset / Amount	FTA right-to-use assets	Depreciation	Other changes	Carrying amount at 31.12.2019
Buildings*	226,057	(21,926)	18,231	222,362
Cars	226	(137)	153	242
Other types	214	(89)	85	210
	226,497	**(22,152)**	**18,469**	**222,814**

* Inc. finance leases pursuant to IAS 17.

Section 2 *Lessor*

QUALITATIVE INFORMATION

The group is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

See Part C - Income statement, table 16.2 (Other operating income: breakdown) for information about the other income deriving from operational leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	31/12/2019
Time band	Lease payments to be received
Within 12 months	173
1 to 2 years	160
2 to 3 years	148
3 to 4 years	136
4 to 5 years	126
Over 5 years	350
Total	**1,093**

3.2 Other information

No other information to be reported.

Certification pursuant to para. 5 of art. 154-bis of Legislative Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., confirm:

– the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements during the course of the period from 1 January 2019 to 31 December 2019;
– the performance of analytical work on the objectives identified for Company Level Controls, including the entire scope of consolidation.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2019:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The directors' report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 8 April 2020

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Consolidated financial statements at December 31, 2019

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.C.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Popolare di Sondrio Group (the "Group"), which comprise the balance sheet at December 31, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2019 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Banca Popolare di Sondrio (the "Bank" or the "Parent Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans")	
Loans measured at amortised cost, the amount of which is reported in line item 40 b) of the consolidated balance sheet, represent about 65%of total assets at December 31, 2019. The process of classifying Loans in the various risk categories and measuring them is relevant for the audit because the value of Loans is significant for the consolidated financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following matters are particularly relevant: the identification of objective evidence of Loans' impairment and the consequent classification of the exposures among the non-performing loans, the recoverable amount of the collaterals acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the Loans as well as the probability of disposal and the related cash flows for those loans for which a disposal plan was prepared. Furthermore, as regards to statistical evaluations, those particularly relevant are: the definition of homogeneous Loan categories in terms of credit risk, the determination of the measurement parameters to identify significant increase in credit risk compared to the initial recognition date, the definition of the calculation models for the expected losses ("ECL"), which involves the identification of the exposure at the time of default ("EAD"), the definition of the probability of default ("PD") and its estimated loss ("LGD") based on the historical observation of the data for each risk category and on forward looking factors, including the macroeconomic ones.	In relation to these aspects, our audit procedures included, among other: • understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans; • understanding, also with the support of our risk management and information systems specialists, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information for PD, LGD and EAD as well as the performing of test of controls and substantive procedures, aimed at the verification of the accurate determination of PD, LGD and EAD relevant for the purpose of determining the impairment losses; • understanding, also with the support of our risk management specialists, of the methodology used in relation to the determination of impairment losses for the portfolios to be disposed; • performing analytical procedures of the portfolio of Loans and on the related coverage levels, and analysis of the most significant deviations compared to the balances of the previous year. Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A, in the general meeting held on April 29, 2017, appointed us to perform the audits of the consolidated financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A., are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of the Group at December 31, 2019 including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of the Group at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Group at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, May 2, 2020

EY S.p.A.
Signed by: Davide Lisi, Auditor

This report has been translated into the English language solely for the convenience of international readers.

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

of 12 June 2020 (at second calling)

AGENDA

1) Presentation of the financial statements as of 31 December 2019: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2019;

2) Resolutions on compensation matters:

a) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;

b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on remuneration policies and the compensation paid;

c) Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2020;

3) Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;

4) Determination of directors' emoluments;

5) Appointment of five Directors for the three-year period 2020-2022;

6) Appointment for the remainder of the three-year period 2019-2021 of an advisor and reconstruction of the number of members of the Advisory Committee.

Point 1) on the agenda

Having heard the directors' report on operations for 2019 and the proposed allocation of the profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries, the Meeting,

approved:

– the directors' report on operations;

– the financial statements at 31 December 2019, comprising the balance sheet, income statement and related explanatory notes; the financial statements that report a profit for the year of € 100,695,191. The Shareholders' Meeting also approved the allocation of profit for the year of € 100,695,191 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolved:

a) to allocate:

– 10% to the legal reserve	€	10,069,519.10
– 30% to the statutory reserve	€	30,208,557.30

b) to allocate the residual profit:

– to the legal reserve, a further	€	60,417,114.60

Point 2) on the agenda

Letter a)

The Shareholders' Meeting approved the document containing the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group» and took note of the information on remuneration and incentive policies and practices, and of the information received about the activities of the Remuneration Committee.

Letter b)

The Shareholders' Meeting approved the first section of the Report on remuneration policy and the compensation paid. In addition, it approved the second section of the Report on remuneration policy and the compensation paid.

Letter c)

The Shareholders' Meeting approved the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2020.

Point 3) on the agenda

The Shareholders' Meeting resolved:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2020 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Chairman's Committee, which will therefore publish the information required pursuant to art. 144-bis, para. 3, Issuer's Regulation on the programme start date;

<u>Purchase of treasury shares:</u>

- purchases may be made up to a maximum amount of euro 30,000,000 (thirty million) without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
- purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2020 financial statements;
- the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa

Italiana S.p.A. at the end of the market day immediately prior to each transaction;

- purchases must be made in one of the ways specified in para. 1, letters a), b), c), d-bis), d-ter), or in para. 2 of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

Trading and sale of treasury shares

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2020 financial statements;
- the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- the selling price of the shares - if sold in the market - must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volume

- the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each operation.

Cancellation of treasury shares

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 490,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2020 Compensation Plan based on financial instruments during the life of that plan.

The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that run the market.

Point 4) on the agenda

The Meeting set the remuneration of the directors in accordance with the current «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Point 5) on the agenda

The Meeting appointed the following as members of the Board of Directors for the three-year period 2020-2022: Mario Alberto Pedranzini, Lino Enrico Stoppani, Cecilia Corradini, Annalisa Rainoldi, Paolo Biglioli.

Point 6) on the

The Shareholders' Meeting appointed Antonio La Torre as advisor and Cesare Mirabelli as alternate advisor for the rest of the three-year period 2019-2021.

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital &reserves) euro	Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,3 90,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	0.060
2017	15,201,247,408	21,819,028,458	34,664,943,911	2,426,948,619	118,400,102	0.070
2018	14,716,303,975	21,483,735,791	33,770,793,630	2,366,819,712	83,623,117	0.050
2019	12,258,037,925	22,314,013,776	33,139,673,205	2,517,571,741	100,695,191	0.000

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which are aggregated with different criteria following the regulatory changes that have occurred.

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