



**Banca Popolare
di Sondrio**

FOUNDED IN 1871

**CONSOLIDATED INTERIM
REPORT AT 31 MARCH 2023**



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di Sondrio**

FOUNDED IN 1871

CONSOLIDATED INTERIM REPORT AT 31 MARCH 2023

Joint-stock company

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Entered in the Sondrio Companies Register No. 00053810149 - Official List of Banks No. 842 Parent company of the Banca Popolare di Sondrio Banking Group, entered in the Official List of Banking Groups No. 5696.0 - Member of the Interbank Deposits Protection Fund

Tax code and VAT number: 00053810149

Share capital: € 1,360,157,331 – Reserves: € 1,385,452,113

(Figures approved at the Shareholders' meeting of 29 April 2023)

Rating:

- Rating issued to Banca Popolare di Sondrio by Fitch Ratings on 27 July 2022:
 - Long-term Issuer Default Rating (IDR): BB+
 - Short-term Issuer Default Rating (IDR): B
 - Viability Rating: bb+
 - Government Support Rating: n.a.
 - Long-term Deposit Rating: BBB-
 - Short-term Deposit Rating: F3
 - Senior Preferred Debt: BB+
 - Subordinated Tier 2 Debt: BB-
 - Outlook: Stable.
- Rating issued to Banca Popolare di Sondrio by DBRS Morningstar on 14 November 2022:
 - Long-Term Issuer Rating: BBB (low)
 - Short-Term Issuer Rating: R-2 (middle)
 - Intrinsic Assessment: BBB (low)
 - Support Assessment: SA3
 - Trend: Stable
 - Long-Term Deposit Rating: BBB
 - Short-Term Deposit Rating: R-2 (high)
 - Long-term Senior Debt: BBB (low)
 - Short-term Debt: R-2 (middle)
 - Subordinated Debt: BB
- Rating issued to Banca Popolare di Sondrio by Scope Ratings on 14 March 2023:
 - Issuer rating: BBB
 - Outlook: Stable

BOARD OF DIRECTORS

Chair	FRANCESCO VENOSTA
Deputy Chair	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	ALESSANDRO CARRETTA NICOLA CORDONE LORETTA CREDARO* DONATELLA DEPPERU ANNA DORO FEDERICO FALCK* ATTILIO PIERO FERRARI* MARIA CHIARA MALAGUTI PIERLUIGI MOLLA SERENELLA ROSSI SILVIA STEFINI ROSSANA ZAMBELLI

BOARD OF STATUTORY AUDITORS

Chair	SERENELLA ROSSANO
Statutory Auditors	MASSIMO DE BUGLIO LAURA VITALI
Alternate Auditors	ALESSANDRO MELLARINI PAOLO VIDO

GENERAL MANAGEMENT

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

Manager responsible for preparing the Company's accounting documents

MAURIZIO BERTOLETTI

* Members of the Executive Committee

** Member of the Executive Committee and Secretary of the Board of Directors

INTRODUCTION

Legislative Decree No. 25 of 15 February 2016, which amended the Consolidated Law on Finance, abolished the disclosure requirements for the first and third quarters of the year to which issuers were subject, without prejudice to the possibility given to Consob to provide for additional periodic disclosure obligations for issuers.

Consob has provided the option for listed companies to choose whether or not to publish additional periodic financial information.

Our Group decided to give priority to market disclosure and therefore, in continuity with the past, this consolidated interim report as at 31 March 2023 has been prepared in accordance with the recognition and measurement criteria set forth in the IAS/IFRS adopted by the European Community at present.

This consolidated interim report has not been independently audited.

BASIS OF PREPARATION

The financial statements included in the consolidated interim report conform to the mandatory financial statement formats provided for by Bank of Italy Order No. 262 of 22 December 2005, 8th update of 17 November 2022.

In the reporting period, the accounting standards adopted remained essentially unchanged from the previous year.

For detailed information concerning the application of accounting standards, please refer to the consolidated financial statements as at 31 December 2022.

In the financial statements, values are expressed in thousands of euro.

The balance sheet is compared with the balance sheet in the financial statements as at 31 December 2022.

The income statement is compared with the income statement for the period ended 31 March 2022.

The preparation of the consolidated interim report usually requires a more extensive use of estimation methods than the annual report with respect to both asset and liability items and income statement items.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio spa - Sondrio;

Group Companies:

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

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

Factorit spa - Milan.

The Parent Company holds the entire capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda srl - Milan

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

Banca della Nuova Terra spa - Sondrio

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

PrestiNuova srl - Agenzia in Attività Finanziaria - Rome.

Banca della Nuova Terra spa holds all the capital of PrestiNuova srl - Agenzia in Attività Finanziaria, 100,000 euro.

Popso Covered Bond srl - Conegliano (Tv).

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

SCOPE OF CONSOLIDATION AND METHODOLOGY

The interim report presents the economic and financial position at 31 March 2023 of the Banca Popolare di Sondrio Banking Group, which comprises the Parent Company, Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Sinergia Seconda srl, Banca della Nuova Terra spa, PrestiNuova srl - Agenzia in Attività Finanziaria and Popso Covered Bond srl 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:

EQUITY INVESTMENTS CONSOLIDATED LINE BY LINE

Company Name	Head office	Share capital (in thousands)	% holding
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	100
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
Pirovano Stelvio spa ⁽¹⁾	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl ⁽¹⁾	Milan	75	100
PrestiNuova srl - Agenzia in Attività Finanziaria	Rome	100 ⁽³⁾	100
Immobiliare Borgo Palazzo srl ⁽¹⁾	Tirano	10 ⁽²⁾	100
Immobiliare San Paolo srl ⁽¹⁾	Tirano	10 ⁽²⁾	100
Rent2Go srl ⁽¹⁾	Bolzano	12,050	100
Prima srl ⁽¹⁾	Milan	25 ⁽⁴⁾	100
Popso Covered Bond srl	Conegliano V.	10	60

⁽¹⁾ equity investments not included in the banking group

⁽²⁾ held by Sinergia Seconda srl

⁽³⁾ held by Banca della Nuova Terra spa

⁽⁴⁾ held by Immobiliare San Paolo srl

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

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

- the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;

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

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

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the subsidiary's net result for the year attributable to the Bank 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 write-backs cannot exceed the impairment losses recorded previously. Upon loss of significant influence over an associated company or joint control over a joint venture, the Group assesses and recognises the residual shareholding at fair value. The difference between the carrying amount of the investment at the date of the loss of significant influence or of the joint control and the fair value of the residual investment and the amount received is recognised in the income statement. The ownership percentages are specified in the following table:

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD

Company Name	Head office	Share capital (in thousands)	% holding
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA ⁽¹⁾	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000

⁽¹⁾ held by Banca Popolare di Sondrio (Suisse) SA

TRANSLATION OF FINANCIAL STATEMENTS IN CURRENCIES OTHER THAN THE EURO

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

SUBSEQUENT EVENTS

No events have taken place between the reference date for this consolidated interim report and the date of its approval by the Board of Directors on 9 May 2023 that would require the adjustment of such approved information, and nothing of significance has occurred that would require additional disclosures.

INTERNATIONAL CONTEXT

The continuation of the serious geopolitical uncertainty, relating in particular to the conflict in Ukraine and persistently high inflation in the major advanced economies, justify the weakness of the global economy in early 2023.

The repercussions were also seen at the level of global trade, where flows gradually slowed.

The international monetary policy stance remained restrictive in order to combat inflation.

This contributed to weighing down global economic performance. The pace of growth remained subdued in the US, at around 1.1%, as well as in the UK, while in China, after the abandonment of a policy of fighting the Covid-19 pandemic at all costs, activity gained momentum, with GDP rising by 4.5%. The Indian economy also showed marked progress.

The latest forecasts for the current year point to a less pronounced slowdown than previously feared. However, there continue to be risks related to the war in Ukraine, the feared consequences of inflation and continuing restrictive monetary policies, as well as the possible repercussions of the recent banking disruptions in the US and Switzerland on global financial conditions.

The euro area – which is particularly sensitive to the consequences of the war in Ukraine, because of both its geographical proximity and its former very important economic ties with the two belligerents – after substantial economic stagnation in the last months of 2022, seems to have shown more dynamism with the start of the new year. GDP estimates for 2023 have therefore been revised slightly upwards, but still remain at very low values.

Inflation appears to be falling, thanks in particular to the marked slowdown in energy prices, but the underlying component continued to rise, mainly due to the robust trend in service prices. By contrast, its transmission to wage dynamics remained very limited, and the risks of an upward spiral thus remained very low.

For its part, the European Central Bank raised official interest rates for the first time by 50 basis points in February, followed by a second hike of the same magnitude in March.

After substantial stagnation in the fourth quarter of 2022, the Italian economy seems to have benefited from a slight improvement at the start of the new year (GDP +0.5% in the first three months), facilitated by the significant drop in the prices of energy goods and a streamlining along the supply chains.

On the business side, industrial production resumed growth, while on the household side, inflationary effects continued to impact consumer spending. After peaking at the end of 2022, price

dynamics are expected to slow, even though the underlying inflation component has strengthened in the face of the significant drop in energy expenditure.

The Swiss economy, after slowing in the fourth quarter of 2022, due in particular to the difficult international environment which dampened exports, started the new year with greater dynamism. However, forecasts for 2023 as a whole are not very positive: annual GDP growth is expected to be around 1.1%, influenced by global economic dynamics. Inflation is expected to remain at relatively high levels, while for its part the Swiss National Bank raised the SNB's benchmark rate by 0.50% last March.

SUMMARY OF RESULTS

(in millions of euro)			
Balance sheet figures	31/03/2023	31/12/2022	Change %
Loans and receivables with customers	32,836	33,020	-0.56
Loans and receivables with customers measured at amortised cost	32,461	32,633	-0.53
Loans and receivables with customers measured at fair value through profit or loss	375	387	-2.98
Loans and receivables with banks	1,850	1,865	-0.81
Financial assets that do not constitute loans	14,452	13,667	5.74
Equity investments	350	323	8.49
Total assets	57,668	57,854	-0.32
Direct funding from customers	39,045	41,771	-6.53
Indirect funding from customers	41,612	39,059	6.54
Direct funding from insurance premiums	1,988	1,958	1.52
Customer assets under administration	82,645	82,787	-0.17
Other direct and indirect funding	22,316	20,177	10.60
Equity	3,500	3,387	3.33
Income statement			
Income statement	31/03/2023	31/03/2022	Change %
Net interest income	192	156	22.96
Total income*	332	231	43.34
Profit from continuing operations	156	80	94.10
Profit (Loss) for the period	94	40	134.26
Capital ratios			
CET1 Capital ratio	15.27%	15.39%	
Total Capital ratio	17.84%	17.95%	
Free capital	2,069	2,095	
Other information on the Banking Group			
Number of employees	3,470	3,456	
Number of branches	373	373	

* Total income is represented as per the reclassification made in the table commenting on the income statement.

ALTERNATIVE PERFORMANCE INDICATORS

	31/03/2023	31/12/2022
Key ratios		
Equity/Direct funding from customers	8.96%	8.11%
Equity/Loans to customers	10.66%	10.26%
Equity/Financial assets	24.22%	24.78%
Equity/Total assets	6.07%	5.86%
Profitability indicators		
Cost/Income	40.92%	53.44%
Net interest income/Total income	57.90%	67.50%
Administrative expenses/Total income	41.28%	55.74%
Net interest income/Total assets	0.33%	0.27%
Net financial income/Total assets	0.51%	0.35%
Profit for the year/Total assets	0.16%	0.07%
Asset quality indicators		
NPL ratio	4.29%	4.29%
Texas ratio	16.62%	18.16%
Net bad loans/Equity	2.75%	3.60%
Net bad loans/Loans to customers	0.29%	0.37%
Loans to customers/Direct funding from customers	84.10%	79.05%
Cost of credit	0.49%	0.51%

Notes:

- The ratios were calculated using the figures shown in the summary reclassified income statement.
- Cost/Income ratio: the ratio between operating costs and total income.
- Texas ratio: the ratio between bad loans and the difference between equity and intangible assets, as the denominator.
- Cost of credit: ratio of net adjustments/write-backs of impairment losses on loans in the income statement, adjusted for losses and expenses on the sale of NPLs, to total loans and advances to customers.

FUNDING

At the system level, direct funding fell by 1.6% year-on-year in the first quarter of the year, continuing the slowdown already seen at the end of 2022. By contrast, indirect funding rose significantly. The average interest rate on total bank customer deposits continues to rise.

Our Group was no stranger to this trend, recording a decline in direct funding. The item, which consists of the balance sheet liability items 10b "Due to customers" and 10c "Securities issued", amounted to 39,045 million, -6.53% on the comparative period, but up 3.58% year-on-year.

Indirect funding from customers, at market values, totalled 41,612 million, +6.54%. Direct funding from insurance premiums reached 1,987 million, +1.52%.

Total funding from customers therefore amounted to 82,645 million, -0.17%. Deposits from banks amounted to 12,985 million, compared with 11,382 million. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of 8,874 million.

Securities under administration lodged by banks have increased from 8,796 to 9,331 million, +6.09%. Total funding from customers and banks therefore amounts to 104,961 million, +1.94%.

As for the individual components, current accounts and sight deposits, down 5.81% to 31,663 million, accounted for 81.09% of all direct funding. Bonds increased moderately, by +8.75%, to 3,841 million. Deposits maturing amounted to 2,498 million, -6.15%. Repos amounted to 665 million, compared to 1,576 million as at 31 December 2022. Bank drafts amounted to 123 million, +5.30%. The item represented by lease liabilities, deriving from the accounting method envisaged by IFRS 16, amounted to 170 million, -0.80%, while other forms of funding decreased from 96 to 86 million, -11.14%. As regards asset management, please see the chapter on treasury and trading activities.

DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/03/2023	Compos. %	31/12/2022	Compos. %	Change %
Current accounts and sight deposits	31,662,521	81.09	33,616,828	80.48	-5.81
Fixed-term deposits	2,498,126	6.40	2,661,831	6.37	-6.15
Repo transactions	665,121	1.70	1,576,069	3.77	-57.80
Lease liabilities	169,775	0.43	171,146	0.41	-0.80
Bonds	3,840,831	9.84	3,531,946	8.46	8.75
Bank drafts and similar	123,001	0.32	116,815	0.28	5.30
Other payables	85,634	0.22	96,372	0.23	-11.14
Total	39,045,009	100.00	41,771,007	100.00	-6.53

TOTAL FUNDING

(thousands of euro)	31/03/2023	Compos. %	31/12/2022	Compos. %	Change %
Total direct funding from customers	39,045,009	37.20	41,771,007	40.57	-6.53
Total direct funding from insurance premiums	1,987,653	1.89	1,957,819	1.90	1.52
Total indirect funding from customers	41,612,240	39.65	39,058,623	37.93	6.54
- Asset management	6,637,974	15.95	6,386,243	16.35	3.94
- Assets under administration	34,974,266	84.05	32,672,380	83.65	7.05
Total	82,644,902	78.74	82,787,449	80.40	-0.17
Due to banks	12,984,562	12.37	11,381,703	11.05	14.08
Indirect funding from banks	9,331,461	8.89	8,795,626	8.55	6.09
Grand total	104,960,925	100.00	102,964,778	100.00	1.94

LOANS AND RECEIVABLES WITH CUSTOMERS

Bank lending declined sharply during the period under review. The increase in official interest rates by the monetary authorities was gradually transmitted to the cost of credit for businesses and households, contributing to weakening demand by businesses for investment purposes, but also to a decline in mortgage applications by households for home purchases. The rate of reclassification to non-performing remained low.

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 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".

LOANS TO CUSTOMERS

(thousands of euro)	31/03/2023	Compos. %	31/12/2022	Compos. %	Change %
Current accounts	3,747,953	11.41	3,601,999	10.91	4.05
Mortgage loans	20,008,680	60.93	19,989,083	60.54	0.10
Personal loans and assignments of one-fifth of salary or pension	514,347	1.57	502,524	1.52	2.35
Factoring	3,008,924	9.16	3,273,352	9.91	-8.08
Other loans	4,766,875	14.52	4,864,391	14.73	-2.00
Fixed-yield securities	789,653	2.40	788,830	2.39	0.10
Total	32,836,432	100.00	33,020,179	100.00	-0.56

Overall, loans to customers amounted to 32,836 million, -0.56% compared to the end of 2022 and +4.33% year-on-year. The ratio of loans to direct funding from customers has thus reached 84.10%, from 79.05%.

The various items have contributed to total customer loans to a different extent. The main item is mortgages and unsecured loans, amounting to 20,009 million, which were essentially stable and accounted for 60.93% of loans. They also include assets sold but not derecognised in connection with the issue of covered bonds, which were not derecognised as they did not meet the requirements of IFRS 9 for derecognition. This was followed by other financing (advances, grants, etc.), which amounted to 4,767 million, -2.00%, or 14.52% of financing. Current accounts amounted to 3,748 million, an increase of 4.05%. Personal loans rose slightly, +2.35%, while factoring transactions declined, -8.08% to 3,009 million. Fixed-yield securities amounted to 789 million, +0.10%. The latter derive from securitisation transactions of loans to customers carried out by the investee companies Banca della Nuova Terra spa and Alba Leasing spa, and also include securities issued as part of the four sales of NPLs from the SPV Diana, POP NPLS 2020, POP NPLS 2021 and POP NPLS 2022.

Total net non-performing loans have fallen by 5.42% to 576 million, compared with 609 million at the end of 2022; in the comparative period there was a decrease of 27.27%. This aggregate comes to 1.75% (1.84%) of loans to customers; its contraction is due to the sales of NPLs, as well as to the policy to strengthen the corporate structures responsible for granting, managing and monitoring credit.

The total adjustments recorded for non-performing loans total 878 million, +3.11%, representing 60.40% of the gross amount compared with 58.32% last year. Adjustments for the period were higher compared with those of the previous year. Gross non-performing loans fell from 1,460 million to 1,454 million, -0.45%.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/03/2023	31/12/2022	Absolute changes	Changes %
Non-performing loans	Gross exposure	1,453,641	1,460,176	-6,535	-0.45
	Value adjustments	878,051	851,580	26,471	3.11
	Net exposure	575,590	608,594	-33,004	-5.42
Bad loans	Gross exposure	519,228	517,932	1,296	0.25
	Value adjustments	423,014	396,094	26,920	6.80
	Net exposure	96,214	121,837	-25,623	-21.03
Unlikely-to-pay loans	Gross exposure	880,040	880,694	-654	-0.07
	Value adjustments	450,617	450,688	-71	-0.02
	Net exposure	429,423	430,006	-583	-0.14
Exposures past due and/or overdrawn non-performing	Gross exposure	54,373	61,551	-7,178	-11.66
	Value adjustments	4,420	4,798	-378	-7.88
	Net exposure	49,953	56,753	-6,800	-11.98
Performing loans	Gross exposure	32,423,109	32,557,337	-134,228	-0.41
	Value adjustments	162,267	145,754	16,513	11.33
	Net exposure	32,260,842	32,411,583	-150,741	-0.47
Total loans and receivables with customers	Gross exposure	33,876,750	34,017,513	-140,763	-0.41
	Value adjustments	1,040,318	997,334	42,984	4.31
	Net exposure	32,836,432	33,020,179	-183,747	-0.56

Net bad loans, adjusted for write-downs, amounted to 96 million, -21.03% (-36.64% in the comparison period), and correspond to 0.29% of total loans to customers, compared to 0.37% at 31 December 2022. The adjustments to cover estimated losses on bad loans went from 396 million to 423 million (+6.80%), representing 81.47% of the gross amount of such loans compared with 76.48% in the previous year. It is one of the highest coverage percentages at system-wide level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to approximately 94%.

Probable defaults, net of write-downs, amounted to 429 million, around the levels of the comparison period, corresponding to 1.31% of total loans to customers, compared to 1.30% in the previous year. The related adjustments, with the current coverage ratio of 51.20%, amounted to 451 million, essentially unchanged. The coverage ratio was 51.17% last year. Net non-performing past due loans amounted to 50 million (-11.98%), and represent 0.15% of total loans with customers, compared to 0.17%.

Provisions, for performing loans, added up to 162 million, +11.33%, and amounted to 0.50% of the same compared to 0.45% at the end of 2022. This increase reflects the worsening of the macroeconomic and geopolitical context, the still high level of inflation, as well as the uncertainties linked to the Russian-Ukrainian conflict, less favourable prospective scenarios, but also the result of the identification of possible criticalities concerning, in particular, stage 2 positions, which are the most exposed to crisis events.

Adjustments totalled 1,040 million overall, +4.31%.

TREASURY AND TRADING OPERATIONS

The first quarter of 2023 was characterised by a particularly volatile trend in the financial markets. Initially, there was a phase of economic recovery and falling inflation, mainly due to falling energy prices. Towards the end of the period, the outbreak of crisis in the banking sector heavily impacted the overall situation, introducing further elements of uncertainty. The problems of some credit institutions in the US and the bailout of Credit Suisse by UBS in Switzerland gave rise to widespread concern, which was, however, alleviated by the intervention of the monetary authorities. After an encouraging start in January, stock exchanges lost ground as a result of new uncertainties in the macroeconomic and financial environment. At the same time, fixed income fluctuated widely, closing the period up moderately, thanks in part to the flight to quality induced by equity turmoil.

Turning to our Group, the net interbank position was 11,134 million negative at 31 March 2023, compared with 9,516 million negative at the end of 2022. Cash and cash equivalents amounted to 6,066 million, compared with 6,991 million. At 31 March 2023, the Parent Company had three T-LTRO loans outstanding with the ECB for a total of 8,874 million. The first transaction was entered into for 4,368 million on 24 June 2020, with a maturity date of 28 June 2023. The second, for the amount of 806 million, is effective from 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The third was granted on 29 September 2021 (at the same time as the early repayment of two tranches of, respectively, 1,600 million, maturing in December 2022, and 2,100 million, maturing in March 2023) for 3,700 million, maturing on 25 September 2024 and with the option of early repayment from 29 June 2022. In the event of observance of the targets assigned by the ECB on net loans disbursed, all transactions envisage a financing rate indexed to the average of the Deposit Facility from the opening date until 22 November 2022 (for the period from 24/6/2020 to 23/6/2022, the rate is instead fixed at -1%). As of 23 November 2022, the interest rate on outstanding transactions is indexed to the interest rate of the Point Deposit Facility, subject to compliance with the requirements set out above.

Liquidity, although declining, remained abundant throughout the period under review. The exposure to this 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 17,347 million at 31 March, of which 5,599 million free and 11,748 million committed.

During the period under review, treasury operations still favoured recourse to the Deposit Facility with the ECB, which was remunerated at 3.00% after the latest increases. Much of the liquidity deposited was raised on the electronic repo market with institutional counterparties (MMF Money Market Facility), through Cassa di Compensazione e Garanzia with Italian government bonds as the underlying, and on the OTC market, through bilateral reverse repo transactions with leading financial counterparties, mainly with foreign government securities (Germany, France, Spain and Holland) as the underlying. Repo financing remained very intense and at favourable rates this quarter, thanks to the high-quality collateral in the portfolio. There was also a clear upturn, favoured by the return of rates to positive territory, in interbank deposit business (mainly deposits). Noteworthy among such deposits were those with the MEF (Ministry of Economy and Finance) for short maturities.

At 31 March 2023, the portfolios of financial assets comprising financial instruments other than securitisations totalled 14,452 million, up 5.74% on December 2022. The following table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (FIXED-YIELD SECURITIES, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	31/03/2023	31/12/2022	Change %
Financial assets held for trading	147,904	179,665	-17.68
<i>of which, derivatives</i>	49,938	63,361	-21.18
Other financial assets mandatorily measured at fair value	524,776	686,768	-23.59
Financial assets measured at fair value through other comprehensive income	3,382,543	2,555,705	32.35
Financial assets measured at amortised cost	10,396,469	10,245,242	1.48
Total	14,451,692	13,667,380	5.74

The increase in the portfolio as a whole was mainly due to purchases of government bonds of core countries, with short or very short maturities, in the segment of financial assets measured at fair value through other comprehensive income (+32.35%). Financial assets measured at amortised cost increased slightly (+1.48%) due to purchases of ESG securities, while those held for trading declined sharply (-17.68%) as a result of sales, mainly in the equity segment, after the strong performance in the first period of the year. Financial assets mandatorily measured at fair value also decreased (-23.59%) due to the ongoing paring-back of the funds and Sicavs in the segment.

Overall, preference was given to the floating-rate component of Italian government securities, in addition to foreign government securities of core and semi-core countries and bank and corporate bonds, mainly ESG.

The total amount of floating-rate and inflation-indexed government bonds was around 6.2 billion, in line with 6.3 billion at the end of 2022.

The financial duration of the government bond portfolio, down from 31 December 2022, stood at 3 years and 9 months, while the modified duration, also down slightly, was 1.50%. Overall, including bonds (net of securitisation), the modified duration is 1.80%, down slightly on the end of 2022.

Financial assets held for trading

The trading book, which represents an insignificant part of the total securities portfolio, amounted to 148 million, down 17.68% from 180 million at the end of 2022.

(thousands of euro)	31/03/2023	31/12/2022	Change %
Equity securities	28,131	50,856	-44.68
Mutual funds	69,835	65,448	6.70
Net book value of derivative contracts	49,938	63,361	-21.18
Total	147,904	179,665	-17.68

As usual, operations mainly focused on equities and mutual funds (ETFs), as well as Italian government bonds. The balance of Italian government bonds on 31 March was zero as trading exposures in this segment are usually closed at the end of the day.

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to 525 million, down 23.59% from 687 million at the end of 2022.

The portfolio remains mainly concentrated on mutual funds in euro and, to a lesser extent, in foreign currencies. Overall, the investment in funds and Sicavs, in view of derisking of the component impacting the income statement, was further reduced compared to 31 December 2022. Units in bond ETF are predominant; there are also units in equity, real estate, balanced and flexible ETF.

(thousands of euro)	31/03/2023	31/12/2022	Change %
Bank bonds	16,864	17,250	-2.24
Other bonds	32,758	33,100	-1.03
Mutual funds in euro	455,546	617,273	-26.20
Mutual funds in foreign currency (USD)	19,608	19,145	2.42
Total	524,776	686,768	-23.59

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) increased significantly overall since the end of 2022, coming to 3,383 million (+32.35%). The rise of the yield curve favoured the use of the segment through investment in short-maturity securities.

Overall, the exposure to floating-rate Italian government bonds increased (+8.33%) compared to 31 December 2022, amounting to 1,617 million and accounting for 47.81% of the segment, while the fixed-rate component remained essentially stable. Foreign government bonds of core countries, mainly with very short maturities, rose sharply (+193.15%). The overall weight of Italian government bonds on the segment stands at 53.94%, down sharply on year-end.

Bank bonds (+10.18%) and corporate bonds (+9.35%) also increased, albeit to not particularly high levels in absolute terms. There was little change in equities (+3.77%).

(thousands of euro)	31/03/2023	31/12/2022	Change %
Floating-rate Italian government securities	1,617,286	1,492,991	8.33
Fixed-rate Italian government securities	206,447	203,978	1.21
Foreign government securities	993,096	338,768	193.15
Bank bonds	325,170	295,117	10.18
Other bonds	141,276	129,192	9.35
Equity securities	99,268	95,659	3.77
Total	3,382,543	2,555,705	32.35

Financial assets measured at amortised cost

Financial assets measured at amortised cost (held-to-collect) amounted to 10,396 million, up 1.48% from 10,245 million in December 2022. In terms of portfolio composition, compared to 31 December 2022 there was a decrease in Italian government bonds, both variable-rate (-6.25%) and fixed-rate (-12.99%), and an increase in foreign government bonds (+17.31%), partly of the ESG variety. The significant component of floating-rate and inflation-indexed government bonds resulted in an excellent increase in coupon flow, mitigating the effects of rising interest rates. Investments

continued to favour bank bonds (+17.63%) and corporate bonds (+14.39%) that meet ESG (environmental, social and governance) criteria, especially green bonds and social bonds.

(thousands of euro)	31/03/2023	31/12/2022	Change %
LOANS AND RECEIVABLES WITH BANKS	1,026,216	872,396	17.63
Italian bank bonds	789,348	662,648	19.12
Foreign bank bonds	236,868	209,748	12.93
LOANS AND RECEIVABLES WITH CUSTOMERS	9,370,253	9,372,846	-0.03
Floating-rate Italian government securities	4,137,694	4,413,601	-6.25
Fixed-rate Italian government securities	1,469,732	1,689,096	-12.99
Foreign government securities	2,732,612	2,329,482	17.31
Other public administration bonds	315,659	315,996	-0.11
Other bonds	714,556	624,671	14.39
Total	10,396,469	10,245,242	1.48

ASSET MANAGEMENT

In 2023 the asset management industry was adversely affected by the volatility of the financial markets, and the industry reported a decline into net outflows, while assets increased slightly as a result of market performance. In this context, equity products recovered, supported by favourable stock market dynamics after an extremely difficult 2022.

The aforementioned dynamics also affected our Group. The assets managed in various forms total 6,638 million, +3.94%, of which 4,837 million, +4.31%, relates to mutual funds and SICAV, including Popso (SUISSE) Investment Fund Sicav; assets managed by the Group total 1,801 million, +2.97%.

INFORMATION ON EXPOSURE TO SOVEREIGN DEBT

Consob, with communication No. DEM/11070007 of 5 August 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 banking Group at 31 March 2023 amounted to 13,097 million and was structured as follows:

- Italian government securities: 7,431 million;
- Securities of other issuers: 4,616 million;
- Loans to government departments: 143 million;
- Loans to state-owned or local government-owned enterprises: 583 million;
- Loans to other public administrations and miscellaneous entities: 324 million.

EQUITY INVESTMENTS

Equity investments were 350 million, +8.49%. The increase resulted from the measurement of investees at equity.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets amounted to 700 million compared to 688 million at the end of 2022. The former added up to a total of 663 million compared to 650 million, +1.83%, and the latter amounted to 37 million, unchanged.

Intangible assets include 16.997 million relating to goodwill. Goodwill is tested for impairment whenever there are indicators of impairment and at least annually. The test was performed when preparing the consolidated financial statements as at 31 December 2022. As at 31 March 2023, there were no indicators of impairment.

OTHER PROVISIONS

These consist of the severance indemnity (TFR), which decreased from 36 million to 35 million, and the provisions for liabilities and charges, which added up to 313 million, +5.94% from the end of 2022. In particular, there was a significant increase in the provision for commitments and guarantees given, which rose from 63 million to 70 million, and a moderate increase in the provision for pensions and similar obligations, from 168 million to 170 million, whereas other provisions for liabilities and charges rose from 64 million to 73 million.

HUMAN RESOURCES

The Group had 3,470 employees as at 31 March 2023, an increase of 77 persons from 31 March 2022, broken down as follows: 2,923 employed by the Parent Company, 369 by Banca Popolare di Sondrio (SUISSE) SA, 152 by Factorit spa and 26 by BNT spa. To the staff of the banking group must be added the 3 employees of the subsidiary Pirovano Stelvio spa and the 13 employees of the subsidiary Rent2Go srl.

EQUITY

Shareholders' equity at 31 March 2023, inclusive of valuation reserves and the profit for the year, amounts to 3,500.283 million. Compared with the total at 31 December 2022 of 3,387.436 million, this represents an increase of 112.847 million (+3.33%). The change derives from booking the profit for the year under review, as well as from the increase in valuation reserves.

The Shareholders' Meeting of the Parent Company held on 29 April 2023, called to approve the financial statements for the year 2022 and the allocation of profit, resolved to distribute a dividend payable from 24 May 2023 of 0.28 euro for each of the 453,385,777 shares outstanding as at 31 December 2022.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares without nominal value, amounts to 1,360.157 million, unchanged with respect to the comparative period. The share premium reserve remained unchanged at 78.978 million. Reserves rose to 2,034.796 million (+13.65%); the increase of 244.328 million was mainly due to the allocation of profit for 2022.

Valuation reserves, represented by the balance between capital gains and losses recognised on financial assets designated at fair value through comprehensive income (FVOCI), on properties at fair value and between actuarial gains and losses on defined benefit plans for employees, remained negative at 42.647 million, an improvement compared to the end of 2022, when it was negative for 68.086 million.

Treasury shares in portfolio changed slightly to 25.408 million.

With regard to capital adequacy, the harmonised legislation for banks and investment firms is contained in Regulation (EU) No. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV), which define the general limits on capital ratios, which are equal to 7% for the CET 1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. The European Central Bank, by virtue of its powers and on the basis of the evidence gathered within the prudential review and assessment process, sets capital and/or liquidity ratios tailored to each intermediary subject to EU supervision. On 15 December 2022, at the conclusion of the annual SREP ("Supervisory Review and Evaluation Process") conducted in 2022, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 January 2023.

The minimum capital levels required of our banking Group in 2023 are:

- a minimum requirement of Common Equity Tier 1 Ratio of 8.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, unchanged), and an additional Pillar 2 requirement (1.50%);
- a minimum requirement of Tier 1 Capital Ratio of 10.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.00%).
- a minimum requirement of Total Capital Ratio of 13.16%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.66%).

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.

The additional Pillar 2 Requirement (or "P2R2") is 2.66%, down from the previous 2.77%. The new ratio, to be held in the form of primary Tier 1 (CET 1) capital for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.01% as an increase in the second pillar requirement for non-performing exposures.

Since 2017, the ECB has been providing "Pillar 2 Guidance", which acts a guide to the future evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for Supervisory reporting purposes, which do not include the profit as at 31 March 2023, amounted to 3,751 million (Phased-in) and 3,737 million (Fully Phased), while risk-weighted assets amounted to 21,032 million.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at "neutralising" the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

The following are the requirements referring to the Group as at 31 March 2023:

Group's capital ratios	Phased-in	Fully phased
CET1 Ratio	15.27%	15.20%
Tier1 Capital ratio	15.27%	15.20%
Total Capital Ratio	17.84%	17.77%

The consolidated Leverage Ratio was 5.12% applying the transitional arrangements (phased-in) and 5.09% according to the criteria to be applied at the end of the transition (fully phased).

In compliance with the provisions of ESMA (European Securities and Markets Authority) document no. 725/2012, which originated from the ascertainment of a market value for numerous listed companies that was lower than the book value, the Parent Company carried out an impairment test on the entire company complex when preparing the financial statements as at 31 December 2022, which had shown an economic value of the Group that was higher than consolidated shareholders' equity. It was decided not to repeat this test as at 31 March as there were no significant changes.

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 2022:

- capital/direct funding from customers 8.96% v. 8.11%
- capital/customer loans 10.66% v. 10.26%
- capital/financial assets 24.22% v. 24.78%
- capital/total assets 6.07% v. 5.86%
- net bad loans/capital 2.75% v. 3.60%.

BANCA POPOLARE DI SONDRIO STOCK

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed the first three months of 2023 with a positive performance of 3.54%, marking a reference price on 31 March 2023 of 3.914 euro, compared to 3.78 euro at the end of 2022. During the reporting period, the share marked an intraday low and high of 3.64 euro on 20 March and 4.922 euro on 7 March, respectively. The sector index Ftse Italia All-Share Banks was up by 15.41%. Banking stocks rallied in the first quarter of 2023. This rally came to an abrupt end in March due to the panic that spread through the financial markets following the bankruptcy of the US Silicon Valley Bank, followed by the bail-out of Credit Suisse by UBS.

The average daily volume of securities traded on Borsa Italiana's Euronext Milan market in the first three months of the year was 1.075 million, down from 1.578 million in the same period of 2022.

With regard to treasury shares, whose operations are carried out in compliance with the specific shareholders' resolution, as at 31 March 2023, the Parent Company held 3,641,718 treasury shares in its portfolio, unchanged from the end of 2022. In addition are the 36,730 shares held by Banca Popolare di Sondrio (SUISSE) SA, as part of the share-based compensation plan provided for in the Group's Remuneration Policies. The book value is 25.408 million, of which 25.264 million constitutes utilisation of the parent company's treasury share purchase provision of 30 million.

The shareholder structure as at 31 March 2023 consisted of 156,090 shareholders.

BANCA POPOLARE DI SONDRIO stock - Euronext Milan Market of Borsa Italiana



Source REFINITIV EIKON

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, detailed in the table below, has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings.

The ratings shown here refer to Fitch Ratings' decision of 27 July 2022, as well as the assessments expressed by DBRS Morningstar and Scope Ratings on 14 November 2022 and 14 March 2023, respectively.

FITCH RATINGS – issued on 27/07/2022

	RATING
LONG-TERM	
It is a measure of the probability of default and expresses the Bank's ability to repay medium to long-term commitments. It is expressed on a scale from AAA to D, for a total of 11 levels.	BB+
SHORT-TERM	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within 13 months. The measurement scale includes seven levels (F1, F2, F3, B, C, RD and D).	B
VIABILITY RATING	
It evaluates what the Bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from AAA to D, for a total of 11 levels.	bb+
SUPPORT	
It expresses Fitch's assessment of the likelihood that an external entity will offer support to the bank if the latter needs it. The measurement scale includes five levels from 1 (best) to 5 (worst).	5
SUPPORT RATING FLOOR	
This expresses Fitch's assessment of the minimum level below which it will not lower the issuer's long-term rating in the event of it being in financial difficulty, in consideration of the propensity of potential backers (State or institutional owner) to help the bank in such circumstances. The scale of values associated with it reflects that of the long-term ratings. A further possible score, represented by the No Floor (NF) indicates that according to Fitch it is unlikely that help will come from outside (probability of a support intervention less than 40%).	No Support
LONG-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	BBB-
SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits maturing in the short term. It is expressed on a scale similar to that used for the short-term rating (F1, F2, F3, B, C, RD and D).	F3
LONG-TERM SENIOR PREFERRED DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	BB+
LONG-TERM SUBORDINATED DEBT	
It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	BB-
OUTLOOK	
It is a prospective assessment of the possible evolution of the issuer's ratings over a period of 1 to 2 years.	Stable

DBRS Morningstar – issued on 14/11/2022

	RATING
LONG-TERM	
It is a measure of the probability of default and expresses the Bank's ability to repay medium to long-term commitments. It is expressed on a scale from AAA to D.	BBB (low)
SHORT-TERM	
It measures the ability of the organization to which the rating is assigned to meet payments due in the short term. The measurement scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	R-2 (middle)
INTRINSIC ASSESSMENT	
It reflects the opinion of DBRS on the intrinsic fundamentals of the Bank assessed on the basis of quantitative and qualitative elements. It is expressed on a scale from AAA to CCC.	BBB (low)
SUPPORT ASSESSMENT	
It reflects DBRS's view on the likelihood and predictability of timely external support for the Bank in case of need. The measurement scale includes four levels from SA1 (best) to SA4 (worst).	SA3
LONG-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of medium/long-term uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	BBB
SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of short-term uninsured deposits. It is expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	R-2 (high)
LONG-TERM SENIOR DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	BBB (low)
SHORT-TERM DEBT	
It is a measure of the probability of default of short-dated bonds that is expressed using a scale from R-1 to D.	R-2 (middle)
SUBORDINATED DEBT	
It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	BB
TREND (outlook)	
It is a prospective assessment of the possible evolution of the long-term rating assigned over a period of 1-2 years.	Stable

Scope Ratings – issued on 14/03/2023

	RATING
ISSUER RATING	
It is a rating on the Bank's ability to meet its contractual financial commitments in a timely and complete manner. It is expressed on a scale from AAA to D.	BBB
OUTLOOK	
It is a prospective assessment of the possible evolution of the issuer rating assigned over a period of 12-18 months.	Stable

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

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

(thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company at 31.03.2023	2,951,846	68,527
Consolidation adjustments	-4,731	-4,731
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	430,574	17,641
- companies valued using the equity method	122,594	12,970
Balance at 31.03.2023, as reported in the consolidated financial statements	3,500,283	94,407

INCOME STATEMENT

In the first quarter of the year, the economic cycle was affected by the continuing geopolitical uncertainties and the persistence of high, albeit declining, inflation. A slowdown is expected in the coming months, but to a less pronounced extent than estimated in the previous autumn. Monetary policies to combat inflation remain restrictive. Volatility continues to affect the financial markets, due in part to the difficulties of some banking intermediaries in the US and Switzerland and fears of a possible international contagion.

In this context, our Group achieved a very satisfactory result. Profit for the period was 94.407 million, compared to profit of 40.300 million in the first three months of 2022, which were also characterised by uncertainty, due in particular to the outbreak of the Russia-Ukraine conflict.

The comments on the various items refer to the data shown in the "Summary consolidated income statement" below. Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision No. 262/2005 (the notes below indicate the reclassifications applied). The table showing the quarterly development of the reclassified consolidated income statement is also shown.

Net interest income amounted to 192.047 million, +22.96%. The positive performance in the item was affected, for better and worse, by the continued restrictive monetary policy. Interest from customers rose sharply, with an improving rate spread, as did interest accrued on the securities portfolio, due in part to the increase in its size, but mainly to the increase in coupon flows,

particularly on indexed government bonds. The cost of funding, from both customers and banks, also rose sharply, especially the cost of TLTRO III loans following the repeated rate increases by the ECB. Net interest income also benefited from a significant increase in income from tax credits related to the "Cure Italy" and "Relaunch" Decree-Laws, which amounted to over 16 million.

Net fee and commission income of 96.482 million, +5.49%, increased moderately, particularly on guarantees issued, placement of insurance products, current accounts and loans.

Dividends totalling 0.663 million were collected, compared with 0.238 million.

The result from financial activities (the sum of items 80, 90 and 100 of the reclassified income statement) was a positive 29.811 million compared to 17.093 million in the comparative period, +74.40%. By contrast, the imbalance between capital gains and losses on securities in the trading portfolio, which was strongly negative in the comparison period, showed a positive result. The result from foreign exchange and currency business increased.

Net trading income - item 80 - was 28.612 million compared to 2.310 million in the first quarter of 2022, while the net hedging gain - item 90 - was 0.196 million. Gains on disposal or repurchase, item 100, net of losses on disposal of loans of 0.094 million reclassified under loan adjustments, amounted to 1.003 million. The result for the comparison period was a positive 14.844 million. This includes profits of 1.582 million from financial assets measured at amortised cost, losses of 0.664 million from assets measured at fair value through other comprehensive income and profits of 85 thousand euro from financial liabilities.

The result from other financial assets mandatorily valued at fair value, item 110b), was a positive 12.677 million, of which 2.918 million related to loans to customers, compared to a negative 33.586 million.

The total income therefore came to 331.680 million, up 43.34%. Within this aggregate, net interest income accounted for 57.90%.

Adjustments/write-backs for credit risk showed a substantial increase in overall impairment, amounting to 39.819 million, +45.85%. The increases were driven by the change in the risk parameters, the updating of parameters for the new macroeconomic scenarios, the constant monitoring of the positions included in "high risk" lists and the application of further prudential adjustments to incorporate both risk factors attributable to the energy and gas crisis and those attributable to ESG.

Among its components, the sub-item Adjustments to financial assets measured at amortised cost, comprising exposure to customers and banks in the form of both loans and securities, increased by 50.55%. This sub-item amounted to 35.032 million and refers mainly to loans to customers. The increase, as already mentioned, is to a large extent related to prudential assessments in an environment that, on the whole, shows a low rate of non-performing loans and regularity in payments by companies that had benefited from moratoria. Sub-item 130b), which relates to financial assets measured at fair value through other comprehensive income, was negative for 442 thousand, compared to a negative 112 thousand, mainly due to the increase in loss expectations on certain bonds. Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows gains for the reporting period of 2.585 million compared with losses of 1.217 million in the first quarter of 2022.

Provisions for commitments and guarantees given showed a provision of 6.836 million compared to 2.704 million.

The ratio of net adjustments to customer loans/total customer loans (cost of credit) was 0.49%, compared to 0.51% at year-end.

Financial income went from 204.095 to 291.861 million, +43.00%.

As always, there was a strong focus on cost containment in parallel with structural efficiency. Operating costs amounted to 135.721 million, +9.76%. The cost/income ratio decreased from 53.44% to 40.92%.

At the level of the individual components, administrative expenses, normalised to exclude the provision for the income from the pension fund, accounted for through other operating income/expense, amounted to 136.927 million, +6.16%. Within this item, personnel expenses went from 66.477 to 68.954 million, +3.73%, while other administrative expenses rose from 62.502 to 67.973 million, +8.75%. IT costs and those related to the Group's growth in size also continued to be significant. The item "Net provisions for risks and charges" reflects releases of 5.383 thousand compared with a release of 0.405 million. The depreciation of property, equipment and investment property and the amortisation of software amounted to 15.411 million compared with 11.975 million. Other income, net of other operating expenses, amounted to 22 million, +30.20%. For charges for the stabilisation of the banking system, contributions to the National Resolution Fund and FITD, provisions were recognised for 35.005 million, compared to 30 million.

The aggregate profits/losses on equity and other investments was 12.986 million, +94.98%.

Profit before income taxes was 134.121 million compared with 57.103 million. Income taxes amounted to 39.714 million. Profit for the period was thus 94.407 million compared to 40.300 million.

The tax rate, understood as the ratio between income taxes and pre-tax result, stood at 29.61% compared to 29.42%.

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(thousands of euro)	31/03/2023	31/03/2022	Absolute changes	Changes %
Net interest income	192,047	156,190	35,857	22.96
Dividends	663	238	425	178.57
Net fee and commission income	96,482	91,462	5,020	5.49
Result of financial activities [a]	29,811	17,093	12,718	74.40
Result of other financial assets and liabilities measured at FVTPL [b]	12,677	-33,586	46,263	n.a.
<i>of which LOANS</i>	2,918	-12,965	15,883	n.a.
<i>of which OTHER</i>	9,759	-20,621	30,380	n.a.
Total income	331,680	231,397	100,283	43.34
Net adjustments [c]	-39,819	-27,302	-12,517	45.85
Net financial income	291,861	204,095	87,766	43.00
Personnel expenses [d]	-68,954	-66,477	-2,477	3.73
Other administrative expenses [e]	-67,973	-62,502	-5,471	8.75
Other operating income/expense [d]	22,000	16,897	5,103	30.20
Net accruals to provisions for risks and charges [f]	-5,383	405	-5,788	n.a.
Adjustments to property, equipment and investment property and intangible assets	-15,411	-11,975	-3,436	28.69
Operating costs	-135,721	-123,652	-12,069	9.76
Operating profit (loss)	156,140	80,443	75,697	94.10
Charges for stabilising the banking system [e]	-35,005	-30,000	-5,005	16.68
Net gains (losses) on equity investments and other investments	12,986	6,660	6,326	94.98
Profit (loss) before tax	134,121	57,103	77,018	134.88
Income taxes	-39,714	-16,803	-22,911	136.35
Profit (loss)	94,407	40,300	54,107	134.26
(Profit) loss attributable to non-controlling interests	-	-	-	n.a.
Profit (loss) attributable to the Parent Company	94,407	40,300	54,107	134.26

Notes:

- [a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
- [b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
- [c] Net adjustments consist of the sum of items 130 - 140 - 200 a) in the income statement inclusive of losses on disposals of 0.094 million euro.
- [d] Personnel expenses and other operating income have been stated net of the income generated by the post-employment benefits fund of 2.630 million euro.
- [e] Charges for stabilising the banking system have been separated from other administrative expenses and presented separately.
- [f] Net allocations to provisions for risks and charges refer to item 200 b).

The results as at 31/03/2022 have been made consistent.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

(thousands of euro)	2023		2022		
	I Quarter	IV Quarter	III Quarter	II Quarter	I Quarter
Net interest income	192,047	203,815	156,943	164,119	156,190
Dividends	663	365	413	5,448	238
Net fee and commission income	96,482	104,231	91,840	93,057	91,462
Result of financial activities [a]	29,811	24,183	4,029	24,260	17,093
Result of other financial assets and liabilities measured at FVTPL [b]	12,677	6,563	-6,566	-33,999	-33,586
<i>of which LOANS</i>	2,918	4,708	2,076	-4,279	-12,965
<i>of which OTHER</i>	9,759	1,855	-8,642	-29,720	-20,621
Total income	331,680	339,157	246,659	252,885	231,397
Net adjustments [c]	-39,819	-65,873	-60,483	-16,096	-27,302
Net financial income	291,861	273,284	186,176	236,789	204,095
Personnel expenses [d]	-68,954	-69,096	-69,326	-64,247	-66,477
Other administrative expenses [e]	-67,973	-71,288	-60,059	-68,154	-62,502
Other operating income/expense [d]	22,000	20,357	22,887	22,053	16,897
Net accruals to provisions for risks and charges [f]	-5,383	-6,545	-1,495	-6,653	405
Adjustments to property, equipment and investment property and intangible assets	-15,411	-18,180	-16,778	-15,547	-11,975
Operating costs	135,721	-144,752	-124,771	-132,548	-123,652
Operating profit (loss)	156,140	128,532	61,405	104,241	80,443
Charges for stabilising the banking system [e]	-35,005	-2,865	-3,004	-10,040	-30,000
Net gains (losses) on equity investments and other investments	12,986	10,609	5,331	2,578	6,660
Profit (loss) before tax	134,121	136,276	63,732	96,779	57,103
Income taxes	-39,714	-36,241	-17,507	-32,018	-16,803
Profit (loss)	94,407	100,035	46,225	64,761	40,300
(Profit) loss attributable to non-controlling interests	-	-	-	-	-
Profit (loss) attributable to the Parent Company	94,407	100,035	46,225	64,761	40,300

Notes:

- [a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
- [b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
- [c] Net adjustments consist of the sum of items 130 - 140 - 200 a) of the income statement.
- [d], [e] and [f] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

DISTRIBUTION BY GEOGRAPHICAL AREAS

The Group's activities are carried out in Italy and in neighbouring Swiss Confederation, where its subsidiary Banca Popolare di Sondrio (SUISSE) SA operates.

The latter's contribution to the Group can be summarised in the following figures: Suisse accounts for 8.97% of direct customer deposits, 13.03% of loans to customers, 6.39% of net commissions and 6.05% of net interest income.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

There are no significant events to report after the end of the quarter.

In terms of business outlook, in a macroeconomic context shaped by the many well-known complexities that will need to be managed with extreme care, it is reasonable to believe that our Group can continue on its growth, moving up, as far as possible, the achievement of the targets set in the business plan approved in June last year.

Sondrio, 9 May 2023

THE BOARD OF DIRECTORS

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

Pursuant to Article 154-bis, paragraph 2, of the Consolidated Finance Act, the Manager responsible for preparing the Company's accounting documents, Maurizio Bertoletti, declares that the accounting information contained in this consolidated interim report as at 31 March 2023 corresponds to the documented results, books and accounting records.

Manager responsible for preparing the
Company's accounting documents

Maurizio Bertoletti



**CONSOLIDATED BALANCE SHEET AND INCOME
STATEMENT
AT 31 MARCH 2023**

CONSOLIDATED BALANCE SHEET

(thousands of euro)

ASSET ITEMS	31/03/2023	31/12/2022
10. CASH AND CASH EQUIVALENTS	6,066,123	6,990,689
20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	1,048,162	1,254,070
a) financial assets held for trading	147,904	179,665
c) other financial assets mandatorily measured at fair value	900,258	1,074,405
30. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	3,382,543	2,555,705
40. FINANCIAL ASSETS MEASURED AT AMORTISED COST	43,681,300	43,870,637
a) Loans and receivables with banks	1,850,097	1,865,249
b) Loans and receivables with customers	41,831,203	42,005,388
50. HEDGING DERIVATIVES	451	248
60. CHANGE IN VALUE OF MACRO-HEDGED FINANCIAL ASSETS (+/-)	(29)	(198)
70. EQUITY INVESTMENTS	350,008	322,632
90. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	662,849	650,908
100. INTANGIBLE ASSETS	37,055	36,669
of which:		
- goodwill	16,997	16,997
110. TAX ASSETS	313,856	342,647
a) current	2,007	17,654
b) deferred	311,849	324,993
130. OTHER ASSETS	2,125,654	1,830,354
TOTAL ASSETS	57,667,972	57,854,361

LIABILITIES AND EQUITY	31/03/2023	31/12/2022
10. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	52,029,571	53,152,710
a) Due to banks	12,984,562	11,381,703
b) Customer deposits	35,081,178	38,122,246
c) Debt securities issued	3,963,831	3,648,761
20. FINANCIAL LIABILITIES HELD FOR TRADING	59,870	115,871
40. HEDGING DERIVATIVES	324	227
60. TAX LIABILITIES	44,034	32,359
a) current	13,749	3,160
b) deferred	30,285	29,199
80. OTHER LIABILITIES	1,685,365	834,629
90. PROVISION FOR EMPLOYEE SEVERANCE PAY	35,442	35,597
100. PROVISIONS FOR RISKS AND CHARGES	313,079	295,528
a) commitments and guarantees given	70,037	63,204
b) pension and similar obligations	169,904	167,827
c) other provisions for risks and charges	73,138	64,497
120. VALUATION RESERVES	(42,647)	(68,086)
150. RESERVES	2,034,796	1,790,468
160. SHARE PREMIUM ACCOUNTS	78,978	78,978
170. SHARE CAPITAL	1,360,157	1,360,157
180. TREASURY SHARES (-)	(25,408)	(25,402)
190. NON-CONTROLLING INTERESTS (+/-)	4	4
200. PROFIT (LOSS) FOR THE YEAR (+/-)	94,407	251,321
TOTAL LIABILITIES AND EQUITY	57,667,972	57,854,361

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS		31/03/2023	31/03/2022
10.	INTEREST AND SIMILAR INCOME <i>of which: interest income calculated using the effective interest method</i>	360,383	185,047
20.	INTEREST AND SIMILAR EXPENSES	356,759	182,187
30.	NET INTEREST INCOME	-168,336	-28,857
40.	FEE AND COMMISSION INCOME	192,047	156,190
50.	FEE AND COMMISSION EXPENSE	102,232	95,919
60.	NET FEE AND COMMISSION INCOME	96,482	91,462
70.	DIVIDENDS AND SIMILAR INCOME	663	238
80.	NET TRADING INCOME	28,612	2,310
90.	NET HEDGING GAIN (LOSS)	196	-61
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF: <i>a) financial assets measured at amortised cost</i>	909	14,844
	<i>b) financial assets measured at fair value through other comprehensive income</i>	1,488	8,814
	<i>c) financial liabilities</i>	-664	6,030
		85	-
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS <i>b) other financial assets mandatorily measured at fair value</i>	12,677	-33,586
120.	TOTAL INCOME	331,586	231,397
130.	NET ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK RELATED TO: <i>a) financial assets measured at amortised cost</i>	-35,474	-23,381
	<i>b) financial assets measured at fair value through other comprehensive income</i>	-35,032	-23,269
		-442	-112
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	2,585	-1,217
150.	NET FINANCIAL INCOME	298,697	206,799
180.	BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT	298,697	206,799
190.	ADMINISTRATIVE EXPENSES: <i>a) personnel expenses</i>	-174,562	-159,067
	<i>b) other administrative expenses</i>	-71,584	-66,565
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES <i>a) commitments for guarantees given</i>	-102,978	-92,502
	<i>b) other net provisions</i>	-12,219	-2,299
		-6,836	-2,704
		-5,383	405
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	-11,900	-8,843
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	-3,511	-3,132
230.	OTHER OPERATING INCOME/EXPENSE	24,630	16,985
240.	OPERATING COSTS	-177,562	-156,356
250.	GAINS (LOSSES) ON EQUITY INVESTMENTS	12,970	6,572
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	-	-
280.	GAINS (LOSSES) ON SALES OF INVESTMENTS	16	88
290.	PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	134,121	57,103
300.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	-39,714	-16,803
310.	POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	94,407	40,300
330.	PROFIT (LOSS) FOR THE PERIOD	94,407	40,300
340.	(PROFIT) LOSS FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	-	-
350.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY	94,407	40,300
	BASIC EARNINGS (LOSS) PER SHARE	0.208	0.089
	DILUTED EARNINGS (LOSS) PER SHARE	0.208	0.089

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(thousands of euro)

ITEMS	2023	2022
10. Profit (loss) for the period	94,407	40,300
Other income items net of income taxes that will not be reclassified to profit or loss		
20. Equity securities measured at fair value through other comprehensive income	3,027	(2,176)
70. Defined-benefit plans	187	(175)
90. Share of valuation reserves of equity investments measured at equity	76	21
Other income items net of income taxes that may be reclassified subsequently to profit or loss		
120. Exchange rate differences	(391)	(1,068)
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income	7,712	(21,814)
170. Share of valuation reserves of equity investments measured at equity	14,828	(544)
200. Total other income items net of income taxes	25,439	(25,756)
210. Other comprehensive income (Item 10+200)	119,846	14,544
220. Consolidated comprehensive income attributable to minorities	-	161
230. Consolidated other comprehensive income attributable to the parent company	119,846	14,383

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (thousands of euro)

	Allocation of prior year result	Changes during the year											
		Equity transactions											
Balance at 31.12.2022													
Changes in opening balances													
Balance at 1.1.2023													
Reserves													
Dividends and other allocations													
Changes in reserves													
Issue of new shares													
Purchase of treasury shares													
Extraordinary distribution of dividends													
Changes in equity instruments													
Derivatives on treasury shares													
Stock options													
Changes in interests held													
Other comprehensive income at 31.03.2023													
Equity attributable to the Group at 31.03.2023													
Equity attributable to non-controlling interests at 31.03.2023													
Share capital													
a) ordinary shares	1,360,161	-	1,360,161	-	-	-	-	-	-	-	-	-	1,360,157 4
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium accounts	78,978	-	78,978	-	-	-	-	-	-	-	-	-	78,978 -
Reserves													
a) from earnings	1,754,574	-	1,754,574	251,321	-	(6,993)	-	-	-	-	-	-	1,998,902 -
b) other	35,894	-	35,894	-	-	-	-	-	-	-	-	-	35,894 -
Valuation reserves	(68,086)	-	(68,086)	-	-	-	-	-	-	-	-	-	25,439 (42,647) -
Equity instruments													
Treasury shares	(25,402)	-	(25,402)	-	-	-	-	(6)	-	-	-	-	(25,408) -
Profit for the year	251,321	-	251,321	(251,321)	-	-	-	-	-	-	-	-	94,407 94,407 -
Equity attributable to the Group	3,387,436	-	3,387,436	-	-	(6,993)	-	(6)	-	-	-	-	119,846 3,500,283 -
Equity attributable to non-controlling interests	4	-	4	-	-	-	-	-	-	-	-	-	4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (thousands of euro)

	Allocation of prior year result	Changes during the year															
		Equity transactions															
		Balance at 31.12.2021	Changes in opening balances	Balance at 1.1.2022	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31.03.2022	Equity attributable to the Group at 31.03.2022	Equity attributable to non-controlling interests at 31.03.2022
Share capital																	
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-	-	-	-	-	-	(33,575)	-	1,360,157	4	
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium accounts	83,363	-	83,363	-	-	-	-	-	-	-	-	-	(4,358)	-	79,005	-	
Reserves																	
a) from earnings	1,578,288	-	1,578,288	275,020	-	33,891	-	-	-	-	-	-	(64,850)	-	1,822,349	-	
b) other	37,851	-	37,851	-	-	-	-	-	-	-	-	-	(1,957)	-	35,894	-	
Valuation reserves	32,276	-	32,276	-	-	-	-	-	-	-	-	-	-	(25,756)	6,520	-	
Equity instruments																	
Treasury shares	(25,457)	-	(25,457)	-	-	-	-	1	-	-	-	-	-	-	(25,456)	-	
Profit for the year	275,020	-	275,020	(275,020)	-	-	-	-	-	-	-	-	-	40,300	40,300	-	
Equity attributable to the Group	3,270,494	-	3,270,494	-	-	33,891	-	1	-	-	-	-	-	14,383	3,318,769	-	
Equity attributable to non-controlling interests	104,583	-	104,583	-	-	-	-	-	-	-	-	-	(104,740)	161	-	4	