POPSO COVERED BOND S.R.L.

REPORT AND FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Registered office: Via V. Alfieri n. 1 - 31015 Conegliano (TV)

Quota capital Euro 10,000.00-fully paid-up

Tax code, VAT and Treviso-Belluno Register of Companies no. 04620230260

Member of the Banca Popolare di Sondrio Banking Group –

Register of Banking Groups no. 5696.0

Management and coordination pursuant to Article 2497 and ff. of the Italian Civil Code:
Banca Popolare di Sondrio S.c.p.A.

BANCA POPOLARE DI SONDRIO GROUP

POPSO COVERED BOND S.R.L.

CORPORATE BODIES

BOARD OF DIRECTORS

CHAIRMAN AND MANAGING DIRECTOR	MACOGGI GIANPIETRO
MANAGING DIRECTOR	GABRIELE PAOLO
DIRECTOR	TROMBETTA CARLO

INDEPENDENT AUDITORS

EY S.P.A

QUOTAHOLDERS

BANCA POPOLARE DI SONDRIO S.C.P.A.	60%
SVM SECURITISATION VEHICLES MANAGEMENT S.R.L.	40%

TABLE OF CONTENTS

DIRECTORS' REPORT ON OPERATIONS

1. The business

The Company was established under the name "SPV Covered Bond 4 S.r.l." on 11 September 2013 pursuant to Law no. 130 of 30 April 1999 which contains provisions governing the implementation of securitisation transactions in Italy.

On 8 May 2014 the Company's Quotaholders' Meeting resolved to change the company name to "POPSO Covered Bond S.r.l." and to join the Banca Popolare di Sondrio banking group.

The sole purpose of the Company is the acquisition from banks of the assets listed below, for valuable consideration, within one or more issues (including both single issues and issue programmes) of covered bonds (*Obbligazioni Bancarie Garantite*) implemented pursuant to article 7-*bis* of Law no. 130 of 30 April 1999, as possibly amended and supplemented and related implementing provisions:

(i) land and mortgage loans, which can also be identified in bulk;

(ii) receivables that are claimed from or secured by public authorities, which can also be identified in bulk;

(iii) securities issued within securitisation transactions concerning receivables that are of the same type;

(iv) additional eligible assets or integration eligible assets that are permitted by the aforesaid regulations;

through the raising of loans granted or secured also by the assignor banks, as well as the provision of guarantees issued by the same banks or by other banks.

The Company will carry out the abovementioned activities according to such terms and conditions and in such manners as those set out in the regulations applicable to the issues of covered bonds pursuant to article 7-*bis* of Law no. 130 of 30 April 1999.

In accordance with the aforesaid provisions of law and pursuant to Article 1180 of the Italian Civil Code, the receivables and securities purchased by the Company and the amounts paid out by the related debtors are aimed at satisfying the claims of the holders of the covered bonds referred to in article 7-*bis*, paragraph 1, of Law no. 130/1999 and issued within the context of the issues in which the Company participates and to the benefit of which the Company has provided guarantees, as well as of the counterparties to the derivative contracts entered into to hedge the risks associated with the receivables and securities purchased and to any other additional contract. They are also aimed at the payment of other transaction costs, on a priority basis with respect to the repayment of loans granted or secured also by the assignor banks pursuant to article 7-*bis*, paragraph 1, of Law no. 130/1999.

Any receivables and securities purchased by the Company within each issue transaction or programme constitute assets which are separate for all purposes both from the Company's assets and from those relating to other issue transactions or programmes, in relation to which no actions may be taken by any

creditors other than the holders of the covered bonds issued and by the additional creditors referred to in the previous paragraph.
Within the limits permitted by Law no. 130 of 30 April 1999 and related implementing provisions, the Company may also carry out additional transactions to be entered into for the provision of guarantees and the successful completion of the issues of covered bonds in which it participates, as well as may carry out, in cases when it is permitted by Law no. 130/1999 and related implementing provisions and according to the procedures and within the limits set out therein, transactions of re-investment in other financial assets of funds deriving from the management of the receivables and securities which are purchased pursuant to these articles of association and which are not immediately used to satisfy the rights of the holders of covered bonds (issued within said issues) and to pay transaction costs.
Within the issue of covered bonds in which the Company participates and in compliance with Law no. 130/1999 and related implementing provisions, the Company may appoint third-party persons for the collection of any purchased receivables and for the provision of cash and payment services; it may also carry out any other activity permitted by Article 7-*bis* of Law no. 130/1999.
The Company may carry out its own activity both in Italy and abroad.

The Company has sought and obtained registration under no. 42040 of the General List of Financial Intermediaries (*Elenco Generale degli Intermediari Finanziari*) under article 106, paragraph 1, of Legislative Decree no. 385 of 1 September 1993, as amended (TUB, *Testo Unico Bancario*, Consolidated Act on Banking Laws).

According to Legislative Decree no. 141 of August 2010, as amended by Legislative Decree no. 218 of December 2010, “as regards the assignee persons referred to in article 7-*bis*, within the limits set out in a regulation enacted by the Minister of Economy and Finance and having heard the Bank of Italy, pursuant to article 17, paragraph 3, of Law no. 400 of 23 August 1988, the provisions laid down for financial intermediaries under Title V of legislative decree no. 385 of 1 September 1993 shall apply.”
Article 7 of subsequent Ministerial Decree no. 53/2015, which came into force on 23 May 2015, provides that: “If the assignee companies for the security of covered bonds belong to a banking group, as defined by Article 60 of the TUB, they are not required to register with the register.”
By the entry into force of the abovementioned regulations and given the Company’s membership to the Banca Popolare di Sondrio banking group, the Company submitted a request to the Bank of Italy for cancellation from the General List under Article 106 of the TUB; the cancellation became effective on 24 August 2015.

In compliance with the supervision provisions, the issue of Covered Bonds is an instrument reserved only for those banks which are “*provided with high capitalisation in consideration of the specific* *features of the market of Covered Bonds and of the need to protect creditors other than the Holders of the CBs, whose collateral security is diminished as a result of the transfer of high-quality bank assets.*"

In the context of the above purpose, the Company has been participating, since the 2014 financial year, in a programme of covered bonds of the Banca Popolare di Sondrio Banking Group, through (i) the purchase without recourse (*pro soluto*) by the Company of a portfolio of performing mortgage loans fully originated by Banca Popolare di Sondrio S.c.p.A., pursuant to articles 4 and 7-*bis* of Law no. 130/1999, on 30 May 2014, and (ii) the concurrent obtainment of a subordinated loan from the assignor bank itself and the signature, *inter alia*, of the contract whereby the purchased assets are pledged as an irrevocable guarantee of the bank bonds.

By virtue of the principle of segregation of each set of assets of covered bonds, the financial and economic position of the programme of covered bonds is reported in part D, section 1, letter L, of the Notes to the Financial Statements, in compliance with the provisions laid down in specific Orders issued by the Bank of Italy.

The Financial Statements at 31 December 2018 recognised a break-even result following the charge-back of net operational costs to the separate assets in relation to the financial year just ending.

2. Performance of the relevant market in 2018

Global growth continued in the past months but there were signs of a cyclical downturn in many advanced and emerging economies; world trade prospects continue to worsen after the slowdown in the first part of the year. Uncertainties regarding the economic scenario had repercussions on international financial markets with sliding long-term yields and falling share prices. Global prospects are weighed down by the risks of an unfavourable outcome of the trade talks between the United States and China, the possible flaring up of financial strains in emerging countries and the manner in which Brexit is taking place.

Growth weakened in the Eurozone; industrial production lessened substantially in Germany, France and Italy in November. Even if inflation remained satisfactorily positive, it went down as a result of a drop in energy goods prices.

In Italy, after growth had halted in the third quarter, the economic indicators to hand suggest that activity may have further dwindled in the fourth. The decline in domestic demand, especially in investments and, to a lesser extent, household expenditure, played their part in the lull in the summer months.

Italian export performance was still favourable in the second half of the year but the slowdown in world trade affected businesses' assessments of the prospects for foreign orders. The current account balance is more than satisfactory: the country's net external debt position continued to improve, diminishing to a little over 3% of GDP at the end of September.

Risk premiums on sovereign securities dropped because of the agreement on budget programmes between the Italian Government and the European Commission: the spread between returns on Italian and German government bonds was about 260 base points, 65 fewer than the peak in November. Overall conditions in the financial markets, nevertheless, are still tight than they were seen to be before the summer.

The share prices of lending companies decreased by 14% on the average after the end of September, reflecting weaker growth prospects, as in the Eurozone as a whole. Risk premiums on banking sector bonds, however, have gone down since the end of last year owing to the loosening of sovereign bond tensions.

Credit terms and conditions are still loose overall; interest rates on loans are only slightly higher than in May, before the appearance of the strains on the government bond market. Looking ahead, however, the persistence of the high level of sovereign debt yields and the cost of bank funding will perhaps push lending costs higher.

The reduction in the proportion of non-performing loans out of total lending continued, going down to 4.5% in the third quarter net of adjustments, 1.8% lower than a year before. The flow of new non-performing loans out of total lending is again low (1.7% in the quarter, corrected by seasonal factors and on an annual basis).

The budget manoeuvre increased the deficit for the years 2019-2021 with respect to its tendential value; according to official estimates net debt could be 2.0% of GDP in the current year, interrupting the fall which has been taking place since 2014. In view of the changes made to the manoeuvre, which in the version originally presented would have met a target of a 2.4% deficit in GDP in 2019, the European Commission decided, at this stage, not to commence a Procedure against Italy for excessive deficit.

The central projection of GDP growth is 0.6% this year, 0.4% lower than previously estimated. Among the reasons for the revision are the more unfavourable economic activity data observed in the later part of 2018 which cut the average growth rate achieved during the year by 0.2%; the scaling down of businesses' investment plans shown by the most recent surveys: and the prospects of a slowdown in world trade. Moderately positive, on the other hand, were the effects on growth of the agreement that the Government reached with the European Commission; and the favourable impact of the decrease in long-term interest rates, which more than made up for the corrective adjustments to the budget.

In addition to the global uncertainty factors that have already been mentioned, the risk of lower growth arises from another increase in sovereign debt yields, a faster deterioration in lending terms and conditions in the private sector and a further slackening in businesses' propensity to invest. On the other hand, greater loosening of government bond yield tensions would encourage higher growth rates.

3. Significant events of the financial year

With reference to the Company, no significant events must be reported which occurred during the financial year.
Furthermore, it should be noted that on 1 October 2018 Banca Popolare di Sondrio S.c.p.A. assigned a sixth portfolio for an overall consideration equal to Euro 323,332,984, while on 11 October 2018 it made available a Subordinated Loan to the Company in an amount equal to the overall consideration of the sixth portfolio.

With reference to the payments relating to the subordinated loan, it should be noted that, during the financial year just ending, the Company took steps to duly pay the interest accrued according to the priority order of payments prepared by the Guarantor Calculation Agent.

4. Information on the Company's position, performance and operating result

With reference to the corporate assets, it is deemed that, given the business conducted by the Company, there is no additional information with respect to that illustrated in the Notes to the Financial Statements. Specifically, about performance indicators, it is deemed that they are not significant in relation to the corporate assets, while, as regards the performance of the separate assets, reference is made to Part D, section L, of the Notes to the Financial Statements.

5. Significant events after the end of the Financial Year

No particular significant events occurred after 31 December 2018.

6. Outlook

The operations will be aimed at the regular performance of the transaction in place.

7. The Company as a going concern

While preparing the Financial Statements, an assessment has been made as to the satisfaction of the requirements relating to the Company's ability to operate as a going concern within a time span of at least twelve months after the reporting date of the Financial Statements. To express this assessment, it has been taken into account all the information available and of the specific business conducted by the Company, whose sole purpose, in compliance with Law no. 130 of 30 April 1999, is the participation in issues of covered bonds in the capacity as assignor and guarantor.
Accordingly, these Financial Statements have been prepared on a going concern basis, as no events have occurred, or conditions have been fulfilled which could have raised doubt on the Company's ability to continue to operate as a going concern.

8. Other information

A) Own quotas

The Company does not hold either own interests or interests in the parent company, whether directly or through trust companies.

B) Research and development activities

Given the special nature of the Company, no specific research and development activities were carried out during the Financial Year.

C) Relations with related parties

With reference to the corporate assets, no transactions were executed with related parties, except for what is reported in section 6 of part L, "Other information", of the Notes of Financial Statements to which reference should be made.

With reference to the covered bond transaction, reference is made to paragraph L.3 of these Notes to the Financial Statements, reporting the complete list of the entities involved.

D) Direction and Coordination Activity

The Company is subject to direction and coordination activity on the part of Banca Popolare di Sondrio S.c.p.A. pursuant to Article 2497-*bis* of the Italian Civil Code.

E) Information on risks and the related hedging policies

The information reported below refers to the corporate management operations; as regards separate assets, reference is made to paragraph L, of the Notes to the Financial Statements.

Liquidity risk

The Company believes that it has sufficient liquid assets to meet its own financial commitments.

Interest rate risk

The Company has no financial assets and liabilities which expose it to significant interest rate risks.

Exchange risk

The Company is active only at a domestic level and, accordingly, it is not exposed to exchange risks.

Credit risk

The Company mainly claims receivables from separate assets because of the charge-back of operating costs. Given the collection forecasts on receivables from separate assets and the priority in which these receipts will be applied to the payment of the abovementioned receivables, it is believed that no risks exist in relation to the possibility of them being recovered.

F) Tax treatment of separate assets

Pursuant to Circular Letter 8/E of 6 February 2003, any income arising from the management of separate assets, in the implementation of transactions under Law no. 130/1999, is not comprised in the available assets of the Company, and, accordingly, the Company's tax liability is excluded. This treatment confirms the provisions laid down in the Bank of Italy's Order of 29 March 2000, according to which the Company's income statement is not affected by the income and charges concerning the management of the programme of covered bonds.

The funds (if any) that should become available to the Company once all the creditors of the separate assets are satisfied will be taxed only at the end of the transaction under Law no. 130/1999.

Furthermore, it should be noted that the separate balance sheet assets include receivables for withholding taxes applied to interest income accrued on current accounts. Pursuant to Resolution no. 222/E of 5 December 2003 and Resolution no. 77/E of 4 August 2010, these withholding taxes may be deducted in the financial year in which the securitisation transaction is concluded.

G) Sub-offices

The Company has no sub-offices.

H) Employees

The Company has no employees.

Conegliano, 11 March 2019

POPSO Covered Bond S.r.l.

The Chairman of the Board of Directors

Gianpietro Macoggi

IAS (amounts in Euros)

BALANCE SHEET

ASSETS		2018	2017
40	Financial assets measured at amortised cost	29,562	21,469
a)	receivables from banks	29,562	5,230
100	Tax assets:	3,764	5,230
a)	Current	3,764	5,230
120	Other assets	7,670	7,387
	TOTAL ASSETS	**40,996**	**34,086**

LIABILITIES AND EQUITY		2018	2017
60	Tax liabilities:	125	535
a)	current	125	535
80	Other liabilities	28,737	21,417
110	Quota capital	10,000	10,000
140	Share premium	2,000	2,000
150	Reserves	134	134
	TOTAL LIABILITIES AND EQUITY	**40,996**	**34,086**

INCOME STATEMENT

COSTS AND REVENUES		2018	2017
	INTEREST MARGIN	**-**	**-**
50	Commissions expense	(401)	(584)
60	**NET COMMISSIONS**	**(401)**	**(584)**
120	**OPERATING INCOME**	**(401)**	**(584)**
160	Administrative expenses:	(56,923)	(63,140)
a)	personnel costs	(10,936)	(10,641)
b)	other administrative expenses	(45,987)	(52,499)
200	Other operating income and charges	57,449	64,259
210	**OPERATING COSTS**	**526**	**1,119**
260	**PROFIT (LOSS) BEFORE TAX FROM CURRENT OPERATIONS**	**125**	**535**
270	Income taxes for the year from current operations	(125)	(535)
280	**PROFIT (LOSS) AFTER TAX FROM CURRENT OPERATIONS**	**-**	**-**
300	**PROFIT (LOSS) FOR THE YEAR**	**-**	**-**

STATEMENT OF COMPREHENSIVE INCOME

	Items	31/12/2018	31/12/2017
10.	**Profit (Loss) for the year**	**0**	**0**
	Other income components, net of tax without transfer to P&L		
20.	Equity instruments at fair value through comprehensive income		
30.	Financial liabilities at fair value through profit or loss (changes in credit rating)		
40.	Hedging of equity instruments at fair value through comprehensive income		
50.	Property, plant and equipment		
60.	Intangible assets		
70.	Defined-benefit plans		
80.	Non-current assets held for sale and disposal group of assets		
90.	Portion of valuation reserves of equity-accounted investments		
	Other income components, net of tax with transfer to P&L		
100.	Hedging of foreign investments		
110.	Foreign exchange differences		
120.	Cash flow hedge		
130.	Hedging instruments (items not designated)		
140.	Financial assets (other than equity instruments) at fair value through comprehensive income		
150.	Non-current assets held for sale and disposal groups of assets		
160.	Portion of valuation reserves of equity-accounted investments		
170.	**Total other income components, net of tax**	**0**	**0**
180.	**Comprehensive income (Item 10+170)**	**0**	**0**

STATEMENT OF CHANGES IN EQUITY

	Equity at 31/12/2017	Changes in opening balances	Equity at 1/01/2018	Allocation of result from previous financial year		Changes for the Year						Comprehensive Income FY 2018	Equity at 31/12/2018
				Reserves	Dividends and Other Allocations	Changes in Reserves	Equity Transactions: Issue of New Quotas	Purchase of Own Quotas	Distribution of extra-Dividends	Change in Equity Instruments	Other Changes		
Quota Capital	10,000		10,000										**10,000**
Issue premium	2,000		2,000										**2,000**
Reserves													
a) Retained earnings	134		134										**134**
b) Others													
Valuation reserves													
Equity instruments													
Own Quotas													
Profit (Loss) for the year												**-**	**-**
EQUITY	**12,134**		**12,134**									**-**	**12,134**

	Equity at 31/12/2016	Changes in opening balances	Equity at 1/01/2017	Allocation of result from previous financial year		Changes for the Year						Comprehensive Income FY 2017	Equity at 31/12/2017
				Reserves	Dividends and Other Allocations	Changes in Reserves	Equity Transactions: Issue of New Quotas	Purchase of Own Quotas	Distribution of extra-Dividends	Change in Equity Instruments	Other Changes		
Quota Capital	10,000		10,000										**10,000**
Issue premium	2,000		2,000										**2,000**
Reserves													
a) Retained earnings	134		134										**134**
b) Others													
Valuation reserves													
Equity instruments													
Own Quotas													
Profit (Loss) for the year													
EQUITY	**12,134**		**12,134**										**12,134**

CASH FLOW STATEMENT
(INDIRECT METHOD)

A. OPERATING ACTIVITIES		Amount at	
		31/12/2018	31/12/2017
1	**Operations**	**-**	**-**
	operating result (+/-)	-	-
	capital gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through profit or loss (-/+)		
	capital gains/losses on hedging assets (-/+)		
	net value adjustments for credit risk (+/-)		
	net value adjustments to property, plant and equipment and intangible assets (+/-)		
	net provisions for risks and charges and other costs/revenues (+/-)		
	unpaid taxes, duties and tax credits (+)		
	net value adjustments to discontinued operations, net of tax effect (+/-)		
	other adjustments (+/-)		
2	**CASH FLOW GENERATED FROM/USED BY FINANCIAL ASSETS**	**1,183**	**22,272**
	financial assets held for trading		
	financial assets designated at fair value		
	other assets mandatorily at fair value		
	financial assets at fair value through comprehensive income		
	financial assets measured at amortised cost		
	other assets	1,183	22,272
3	**CASH FLOW GENERATED FROM/USED BY FINANCIAL LIABILITIES**	**6,910**	**(23,350)**
	financial liabilities at amortised cost		
	financial liabilities held for trading		
	financial liabilities designated at fair value		
	other liabilities	6,910	(23,350)
	Net Cash Flow generated from/used by operating activities	**8,093**	**(1,078)**
B	**INVESTING ACTIVITIES**		
1	**CASH FLOW GENERATED FROM:**		
	sales of equity investments		
	dividends collected on equity investments		
	sales of property, plant and equipment		
	sales of intangible assets		
	sales of business units		
2	**CASH FLOW USED BY:**		
	purchases of equity investments		
	purchases of property, plant and equipment		
	purchases of intangible assets		
	purchases of business units		
	Net Cash Flow generated from/used by investing activities		
C	**BORROWING ACTIVITIES**		
	issues/purchases of own quotas		
	issues/purchases of equity instruments		
	distribution of dividends and other purposes		
	Net Cash Flow generated from/used by borrowing activities		
D	**NET CASH FLOW GENERATED/USED IN THE YEAR**	**8,093**	**(1,078)**

KEY
(+) generated
(-) used

RECONCILIATION	**31/12/2018**	**31/12/2017**
Cash and cash equivalents at the beginning of the Year	21,469	22,547
Net cash flow generated/used in the Year	8,093	(1,078)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the Year	29,562	21,469

"Cash and cash equivalents at the end of the Year" include sight funds available in current bank accounts classified under item 40 "Financial assets measured at amortised cost" of the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

PREAMBLE

The sole purpose of the Company, which was established pursuant to Law no. 130/1999, is to participate in issues of covered bonds, in the capacity as the assignor of a portfolio of receivables, which is purchased through loans granted by the assignor bank itself and which is intended to secure the bonds issued by the latter.

Form and content of the Notes to the Financial Statements

These Notes to the Financial Statements are divided into the following four parties:

- Part A – Accounting Policies;
- Part B – Information on the balance sheet;
- Part C – Information on the income statement;
- Part D – Other information.

Each part in the Notes to the Financial Statements is composed of sections illustrating each individual aspect of the business management. The sections contain information of both a qualitative and quantitative nature.

Quantitative information generally includes items and tables.
The tables have been prepared complying with the formats envisaged in the current provisions.

The Financial Statements have been subject to statutory audit by the independent auditors EY S.p.A..

PART A – ACCOUNTING POLICIES

A.1 –GENERAL PART

Section 1 – Statement of compliance with international accounting standards

The Company has adopted the IAS/IFRS international accounting standards in the preparation of the Financial Statements at 31 December 2018.

IAS/IFRS means all International Accounting Standards ("IAS"), all International Financial Reporting Standards ("IFRS"), any and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously named Standing Interpretations Committee ("SIC") - endorsed by the European Commission and transposed by Legislative Decree no. 38/2005 into the Italian legal system.

Furthermore, the provisions in the "Framework for the preparation and presentation of Financial Statements" complied with the principle concerning the prevalence of substance over form, as well as to the importance and significance of information.

About the disclosures required by IFRS 8, "Operating Segments", it should be noted that any breakdown would not be significant given the nature of the Company; therefore, it is omitted from these notes to the financial statements.

Since the Company is consolidated in the Banca Popolare di Sondrio Banking Group according to IFRS 10, it has adopted, on a voluntary basis, the international accounting standards, as it met the requirements for the option at the time of the exercise pursuant to then Article 2, letter e), of Legislative Decree no. 38/2005.

The Company continues to prepare its financial statements according to international accounting standards. This option complies with Article 4, paragraph 6-*bis*, of Legislative Decree no. 38/2005 introduced by Legislative Decree no. 230 of 29 December 2011, which also extended the right to prepare financial statements by using IAS/IFRS to those companies for which, after the preparation of the financial statements in accordance with international accounting standards, the conditions are no longer fulfilled for the mandatory application of the same standards.

The Financial Statements have been prepared by using the formats envisaged by the 5th updated version of the "Instructions for the preparation of the financial statements of the IFRS Intermediaries other than bank intermediaries", which were issued by the Bank of Italy on 22 December 2017. However, the Order of 9 December 2016 deleted, from its scope of regulation, any reference to securitisation SPVs and assignees for covered bonds belonging to a banking group and not registered on the list, as they are entities that can no longer be described as non-bank financial intermediaries following the Reform of Title V that was completed under Legislative Decree no. 141/2010 and subsequent amending decrees, the accounting effects of which were provided for in Legislative Decree no. 136/2015.

As a result of the fact that IAS 1 does not require strict compliance with the structure of schedules and pending the enactment of new rules aimed at replacing those previously in force and at regulating the preparation of financial statements of securitisation SPVs, these financial statements were drawn up, with regard to corporate management operations, by using the abovementioned schedules; the latter adopt the amendments introduced by the new IFRS9, which became applicable from 1 January 2018. As regards separate assets, reference was made to the Bank of Italy's Order of 15 December 2015 (3rd updating), given that the subsequent orders referred to above did not provide any information on the disclosures to be provided for securitisation transactions.

These schedules were regarded as the most suitable option to provide information on the Company's financial position, results of operations and cash flows which is useful for the users in making decisions of an economic nature and which, at the same time, appears to be important, reliable, comparable and comprehensible.

This decision is also based on the compliance with the general principle of continuity in the description of management events to make the financial statements more understandable.

Section 2 – General principles for the preparation of financial statements

These Financial Statements are made up - in accordance with IAS 1 - of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements and are also accompanied by the Directors' Report on Operations, the economic results achieved and equity and financial position of the Company.

In accordance with article 5 of Legislative Decree no. 38/2005, the Financial Statements have been prepared using the Euro as the money of account, without decimal fractions.

The Financial Statements have been prepared with the intent of giving a true and fair representation of the financial position, results of operations and cash flows for the Financial Year.

The Financial Statements have been prepared on a going concern basis (IAS 1 Revised paragraph 25 - reference is made to point 7 of the Report on Operations as to the considerations made by the Company for establishing the existence of the requirements behind the going-concern concept), on an accrual basis (IAS 1 Revised paragraphs 27 and 28) and in compliance with a consistent presentation and classification of the items in the Financial Statements (IAS 1 Revised paragraph 45). The assets and liabilities, income and costs have not been set off against each other save where required or permitted by a standard or an interpretation (IAS 1 Revised paragraph 32).

Below are the accounting standards that will be applicable from 1 January 2018 and that have already been endorsed by the European Commission:

- IFRS 15 – *Revenue from Contracts with Customers*, which is intended to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. The standard sets out a new method of revenue recognition, which will be applied to any and all contracts entered into with customers, except for those that fall within the scope of application of other IAS/IFRS, such as leases, insurance contracts and financial instruments;
- IFRS 9 - Financial Instruments: The standard provides for new requirements for recognition and measurement of financial assets and liabilities. Specifically, as regards financial assets, the new standard adopts a single approach concerning the management of financial instruments and the characteristics of contract cash flows arising from said assets, in order to determine the relevant measurement policy, replacing the various rules laid down in IAS 39. As regards financial liabilities, the main amendment concerns the accounting treatment of changes in the fair value of a financial liability designated as financial liability at fair value through profit or loss if these changes are due to a change in the credit rating of the entity that has issued the liability. According to the new standard these changes must be recognised in the statement of "Other comprehensive income" and no longer in the income statement. With regard to impairment, the new standard provides for losses on receivables to be estimated according to the expected losses method (and no longer on the incurred losses method used by IAS 39), using supportable, available information without charges or unreasonable efforts, including historical, current and prospective data. The standard provides for this impairment model to be applied to all financial instruments, i.e. financial assets measured at amortised cost and measured at fair value through other comprehensive income, as well as to receivables arising from lease agreements and trade receivables. Finally, the standard sets out a new hedge accounting model in order for the entities to comply with the requirements laid down in the current version of IAS 39, which have sometimes been regarded as too stringent and not suitable to reflect the risk management policies of the entities.

Based on the analyses carried out, the application of the abovementioned standards will have no substantial impact on the current balance sheet and income statement balances of the Company.

Where necessary, the data relating to the Financial Statements of the previous financial year have been subject to consistent reclassifications to make them comparable with the data in these Financial Statements.

Each account in the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement, also report the amount relating to the previous financial year for comparative purposes.

Transactions carried out

Based on the information reported in Section 1 of Part A.1 of these Notes to the Financial Statements, the Company continues to apply the Bank of Italy's Instructions dated 15 December 2015 to prepare these Financial Statements with reference to separate assets, given that the subsequent orders did not report any information on the disclosures to be provided for securitisation transactions.

Consequently, the purchased receivables, the securities issued, and any other transaction completed within the scope of the securitisation transaction are represented in a specific statement and are described in a specific section of the Notes to the Financial Statements and do not form part of the Financial Statements schedules.

This approach is also in line with Law no. 130 of 30 April 1999, according to which "the receivables relating to each transaction will constitute assets which are separate for all purposes both from the company's assets and from those relating to any other transaction."

Consequently, these values concerning the covered bond transaction have not been affected by the application of the IAS/IFRS standards, since in no way do these standards deal with the disclosures relating to separate assets.

However, it should be specified that, pursuant to article 7-*bis*, last paragraph, the receivables have been purchased at the accounting entry value, as resulting from the last financial statements approved by the Assignor, which was affected by the application by the latter of the International Financial Reporting Standards.

For completeness of information, it should be noted that the matter of the accounting treatment, according to international standards, of financial assets and/or groups of financial assets and financial liabilities arising in the context of securitisation transactions and issues of covered bonds, is still being analysed by the bodies responsible for interpreting the statutory accounting standards.

On 4 September 2015 Legislative Decree no. 139/2015 was published, which became effective for the financial statements of financial years beginning from 1 January 2016 and pursuant to which important amendments were applied to the accounting policies concerning some financial statement items of companies required to comply with the accounting rules laid down in the Italian Civil Code and in the

Italian GAAPs.

Specifically, these amendments include the measurement, at amortised cost, of receivables and liabilities that arose during 2016, as well as the fair value measurement of derivatives outstanding as at the date of first-time adoption of the decree.

While pending the enactment of an express regulatory clarification concerning the applicability of these amendments to the separate assets of securitisation SPVs, the Company has decided to continue to apply, in compliance with the principle of continuity, the same accounting policies concerning the items of the offering circular, which are detailed in the paragraph on "Information relating to the Summary Statement" of Part D – Other Information, to which reference should be made.

In this regard, it should be remembered that all information must be provided, even if not expressly required, to give a full representation of the situation, while any information must be omitted which might decrease, by its nature or the excess content, the clarity and immediacy of the disclosures in the document.

Section 3 - Events after the reporting date

No particular significant events occurred after 31 December 2018.

Section 4 – Other aspects

There are no further aspects to report.

A.2 –THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

The accounting standards adopted for the preparation of these Financial Statements are reported below. The accounting policies adopted are the same as those used in the preparation of the Financial Statements of the previous financial year.

ASSETS

Section 4 – Financial assets measured at amortised cost

Criteria for recognition

A receivable is recognised initially on the date of payment or, in the case of a debt instrument, on the settlement date, or when the company becomes a party to the contractual clauses and, therefore, is lawfully entitled to receive cash flows. The initial recognition is made at a fair value equal to the amount paid out, or the subscription price, including transaction costs and fees which are directly attributable and determinable from the beginning of the transaction.

Costs are excluded that have the above characteristics but are repayable by the debtor counterparty or that may be classified under normal internal administrative costs.

Criteria for classification

Receivables, which include short- and medium-to-long term loans to banks and customers, fall within the broadest category of non-derivative financial assets that are not listed on an active market (Levels 2 and 3).

Criteria for measurement and recognition of income components

After initial recognition, receivables are measured at amortised cost, equal to the initial entry value as decreased by repayments of capital, as decreased/increased by value adjustments/write-backs and decreased by amortisation - calculated based on the effective interest rate method - of the difference between the amount paid out and the amount repayable on expiry, typically attributable to the costs/income charged directly to the individual receivable.

The effective interest rate is the rate used to discount future payment flows estimated over the expected term of the loan to obtain the exact net accounting value on its initial recognition, including both directly attributable transaction costs and all fees paid or received by the various contracting parties. This method of accounting uses a finance-based logic and allows the distribution of the economic effect of the costs/income throughout the expected residual life of the receivable.

The amortised cost method is not applied to short-term receivables since the effect arising from the

application of discounting principles is negligible. They are thus valued at their historical cost. An analogous valuation criterion is adopted for receivables without a defined due date or subject to revocation.
Furthermore, an analysis is carried out aimed at identifying doubtful debts showing objective evidence of any possible impairment loss.

Criteria for derecognition

Receivables are derecognised from balance sheet assets when they are finally impossible to recover or when they have been assigned in such a way as to result in the substantial transfer of all risks and rewards attached to the receivables themselves.

Section 10 – Tax assets and liabilities

Both current and deferred income taxes are calculated in compliance with current tax legislation.
Income taxes are recognised in the income statement, except for those relating to items charged or credited directly to equity.
Provision for income taxes is calculated based on a forecast of current, prepaid and deferred taxes. Deferred tax assets and liabilities are calculated on the basis of temporary differences between an asset or liability's accounting value and its value recognised for tax purposes. Deferred tax assets are recognised in the accounts on the basis of the Company's ability to generate positive taxable income on a continuous basis in the future financial years.
Deferred tax assets and liabilities are accounted for in the balance sheet as pre-closing balances and without any offset, entering the former under "Tax Assets" and the latter under "Tax Liabilities".

Section 12 - Other assets

This item includes receivables which are not attributable to any other items under Balance Sheet Assets. These items are entered at their nominal value, or if lower, at their realisable value.

LIABILITIES

Section 8 - Other Liabilities

This item includes payables which are not attributable to any other items under Balance Sheet Liabilities: payables to suppliers and to the separate assets.
These items are entered at their nominal value, which represents the value of discharge.

INCOME STATEMENT

Recognition of Costs and Revenues

Costs and revenues are accounted for on an accrual basis. In consideration of the exclusive nature of the management activity carried out by the Company, operating charges incurred are charged to the separate assets, limited to the amount necessary to ensure the Company's economic and financial stability, as also provided for by contract. This amount is classified under other operating income and charges.

A.3 – INFORMATION ON THE TRANSFERS OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

In relation to the disclosures required by IFRS 7, it should be noted that no reclassifications of financial assets were made between different portfolios.

A.4 – INFORMATION ON THE FAIR VALUE

Qualitative nature

In May 2011 the International Accounting Standards Board (IASB) published IFRS 13 "Fair Value Measurement" aimed at increasing consistency and comparability in fair value measurements, which was transposed into Regulation (EU) no. 1255 of 11 December 2012, applicable as from 1 January 2013.

IFRS13 provides for fair value measurements of financial instruments to be classified based on a 3-level fair value hierarchy (paragraphs 76-90), which reflects the significance of the inputs used in measurements. The standard envisages the following fair value levels:

- Level 1 of fair value: inputs to measure the instrument are quoted prices in active markets for identical instruments that the entity can access at the measurement date;
- Level 2 of fair value: inputs to measure the instrument are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 of fair value: inputs to measure the instrument are unobservable inputs.

As required by the regulation, the approach hierarchy adopted to measure the fair value of all financial instruments (shares, UCIs, bonds, bond issues and derivatives) gives the highest priority to quoted prices in active markets for assets and liabilities to be measured, and, in their absence, to the measurement of assets and liabilities based on significant quotations, or by referring to identical assets and liabilities.

Finally, the hierarchy gives the lowest priority to measurement techniques based on unobservable inputs, which are therefore more discretionary.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	**31.12.2018**				**31.12.2017**			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	29,562			29,562	21,469			21,469
2. Property, plant and equipment held for investment								
3. Non-current assets held for sale and disposal groups of assets								
Total	**29,562**			**29,562**	**21,469**			**21,469**
1. Financial liabilities measured at amortised cost								
2. Liabilities associated with assets held for sale								
Total								

Financial assets measured at amortised cost relate to the balance of the current bank accounts at 31 December 2018. It is believed that the book value of the abovementioned item corresponds to the fair value in consideration of the fact that the current accounts are at sight and reflect market conditions.

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of receivables from banks by product

Breakdown	Total at 31/12/2018						Total at 31/12/2017					
	Book value			Fair value			Book value			Fair value		
	First or second stage	Third stage	of which: impaired assets acquired or originated	L1	L2	L3	First or second stage	Third stage	of which: impaired assets acquired or originated	L1	L2	L3
1. Deposits and current accounts	29,562					29,562	21,469					21,469
2. Loans												
2.1 Repos												
2.2 Finance lease												
2.3 Factoring												
- *with recourse*												
- *without recourse*												
2.4 Other loans												
3. Debt securities												
3.1 structured securities												
3.2 other debt securities												
4. Other assets												
Total	**29,562**					**29,562**	**21,469**					**21,469**

The item is made up of the credit balance of the current bank accounts held with Banca Monte dei Paschi di Siena S.p.A..

It is deemed that the book value of the abovementioned item corresponds to the fair value in view of the fact that the current accounts are at sight and reflect market conditions.

Section 10 – Tax assets and Tax liabilities - Item 100 of assets and item 60 of liabilities

10.1 "Tax assets: current and deferred": breakdown

Items	31/12/2018	31/12/2017
Current tax assets	3,764	5,230

10.2 “Tax liabilities: current and deferred”: breakdown

Items	31/12/2018	31/12/2017
Current tax liabilities	125	535

Current tax liabilities include accrued IRES tax (*Imposta sul Reddito delle Società*, Corporate Income Tax) calculated by applying a 24% rate, while for accrued IRAP tax (*Imposta Regionale sulle Attività Produttive*, Local Tax on Production Activities) the rate applied is equal to 3.90%.

Section 12 – Other assets (Item 120)

12.1 Other assets: breakdown

120 – OTHER ASSETS	31/12/2018	31/12/2017
Advances to suppliers	-	14
Prepaid expenses for services paid in advance	292	99
Accrued income for administrative services	7,378	7,273
TOTAL OTHER ASSETS	**7,670**	**7,386**

As expressly required by the IAS/IFRS accounting standards, this item includes accrued income and prepaid expenses which are not attributable to any other Balance Sheet item.
“Prepaid expenses for services paid in advance” relate to revenues which are common to two Financial Years, as determined on an accrual basis in the application of the matching principle between costs and revenues of the Financial Year.
“Accrued income for administrative services” relates to revenues which are common to two Financial Years, as determined on an accrual basis in the application of the matching principle between costs and revenues of the Financial Year. It includes the accrual of the corporate servicer fee, the fee received by the corporate management operations on a periodical basis from the separate assets of securitisation transaction for the administrative and corporate management service of the SPV company accruing at 31 December 2018, pursuant to the Administrative Services Agreement.

“Advances to suppliers” are made up of payments to suppliers for which the Company must receive the related invoices.

LIABILITIES

Section 6 – Tax liabilities – Item 60

This item includes tax liabilities: as to the relevant compilation, reference is made to Section 10 of Assets "Tax assets and tax liabilities".

Section 8 – Other Liabilities – Item 80

8.1 Other liabilities: breakdown

080 – OTHER LIABILITIES	31/12/2018	31/12/2017
Advances to separate assets	14,372	7,586
Accrued expenses for administrative services	7,377	7,274
Payables to suppliers for invoices to be received	6,579	6,557
Payables to suppliers	409	-
TOTAL OTHER LIABILITIES	**28,737**	**21,417**

As expressly required by the IAS/IFRS accounting standards, this item includes accrued expenses and deferred income which are not attributable to any other item under Balance Sheet.

"Advances to separate assets" relate to the funds that the corporate management must pass on for the payment of operating expenses.

"Accrued expenses for administrative services" relate to costs which are common to two Financial Years, as determined on an accrual basis in the application of the principle of matching costs to revenues of the Financial Year. They include the cost for the administrative and corporate management of the securitisation SPV, as calculated as per contract on an annual basis, accruing at 31 December 2018, for which the supplier will issue the invoice in the next Financial Year.

"Payables to suppliers for invoices to be received" relate to invoices for the provision of services relating to 2018 but not yet received at the reporting date of the Financial Statements.

"Payables to suppliers", referred to in the comparative data, relate to invoices not paid yet.

Section 11 - Equity - Items 110, 120, 130, 140, 150, 160 and 170

11.1 Quota Capital: breakdown

Types	31/12/2018	31/12/2017
1. Quota capital	10,000	10,000
1.1 Ordinary quotas /equity investments	No. 2	No. 2

1.2 Other quotas (to be specified)

The fully subscribed and paid-up Quota Capital is made up as follow:

Quotaholders	Equity Investment Percentage	Equity Investment Face Value
SVM Securitisation Vehicles Management S.r.l.	40.00%	4,000
Banca Popolare di Sondrio S.c.p.A.	60.00%	6,000

For more details on the changes that occurred in Equity, reference is made to the related statement.

11.4 Share premium: breakdown

Types	31/12/2018	31/12/2017
Share premium	2,000	2,000

11.5 Other information

a) Breakdown and change of item 160 Reserves

	Types / Values	Retained earnings					
		Legal reserve	Extraordinary reserve	Profits (Losses) carried forward	Other: FTA Reserve	Other Reserves	Total
A.	**Opening Balance**	**134**	**1,715**	**(1,715)**	0	**0**	**134**
B.	**Increases**						
	B.1 Allocations of Profits						
	B.2 Other changes						
C.	**Decreases**						
	C.1 Uses						
	- loss coverage						
	- distribution						
	- transfer of capital						
	C.2 Other changes						
D.	**Closing Balance**	**134**	**1,715**	**(1,715)**	**0**	**0**	**134**

b) Statement of available and distributable Reserves

Description	Amount	Possible uses	Available share	Summary of uses made in the three previous financial years	
				for loss coverage	for other reasons
Quota Capital	**10,000**				
Equity Reserves:	**2,000**				
Share premium reserve	2,000	B	2,000		
Other Equity Reserves					
Retained earnings:	**134**				
Profits (Losses) carried forward	(1,715)				

FTA Reserve					
Extraordinary reserve	1,715				
Legal reserve	134				
Total	**12,134**		**2,000**		
Non-distributable share			**2,000**		
Distributable share					

Key:

A for capital increase
B for loss coverage
C for distribution to quotaholders

PART C – INFORMATION ON THE INCOME STATEMENT

Section 2 - Commissions – Items 40 and 50

2.2 Commissions expense: breakdown

Breakdown/Sectors	**31/12/2018**	**31/12/2017**
1. Guarantees received		
2. Distribution of services from third parties		
3. Collection and payment services	401	584
4. Other commissions		
Total	**401**	**584**

Section 10 - Administrative Expenses - Item 160

10.1 Personnel costs: breakdown

Type of expense/Values	**Total at 31/12/2018**	**Total at 31/12/2017**
1. Personnel employed		
a) wages and salaries		
b) social security contributions		
c) severance pay		
d) social security costs		
e) provision for employee severance pay		
f) provision for pension fund and similar obligations:		
- defined contribution		
- defined benefits		
g) payments to external supplementary pension funds:		
- defined contribution		
- defined benefits		
h) other employee benefits		
2. Other personnel in active employment		
3. Directors and Statutory Auditors	10,936	10,641
4. Staff on retirement		

5. Recoveries of expenses for employees seconded to other companies 6. Reimbursements of expense for employees seconded to the Company		
Total	**10,936**	**10,641**

10.3 Other administrative expenses: breakdown

Type of expense /Values	Total at 31/12/2018	Total at 31/12/2017
Auditing costs	6,405	9,882
Bookkeeping audit costs	-	1,281
Other indirect taxes and duties	120	573
Government concession tax	310	310
Revenue stamps	32	64
CONSOB contribution	148	-
Stamp tax	16	-
Corporate management services *	38,956	40,389
Total	**45,987**	**52,499**

* The item “Corporate management services” includes all corporate existence costs.

Section 14 – Other operating income and charges - Item 200

14.2 Other operating charges: breakdown

Items	31/12/2018	31/12/2017
Other operating charges	7	-

14.2 Other operating income: breakdown

Items	31/12/2018	31/12/2017
Other operating income	57,456	64,259

Section 19 – Income taxes from current operations for the year - Item 270

19.1 Income taxes from current operations for the year: breakdown

Items	31/12/2017	31/12/2016
1. Current taxes	(125)	(535)
2. Changes in current taxes of previous financial years		
3. Reduction in current taxes for the year		
3.bis Reduction in current taxes for the year for tax credits under Law no. 214/2011		
4. Change in deferred tax assets		
5. Change in deferred tax liabilities		
Taxes accrued in the year	**(125)**	**(535)**

Taxes include accrued 2018 IRAP tax (*Imposta Regionale sulle Attività Produttive*, Local Tax on Production Activities) (at a rate of 3.90%) for Euro 125.

19.2 Reconciliation between theoretical and effective tax burden in the financial statements

	Taxable income	Tax rate	Tax
Theoretical IRAP tax	125	3.90%	5
Increases			
Non-deductible administrative expenses	155	3.90%	6
Personnel costs	10,935	3.90%	426
Decreases			
Lump-sum deduction	(8,000)	3.90%	(312)
Effective IRAP tax	**3,215**	**3.90%**	**125**

PART D – OTHER INFORMATION

Section 1 – SPECIFIC REFERENCES TO OPERATIONS CARRIED OUT

D. GUARANTEES ISSUED AND COMMITMENTS

As at the reporting date of the Financial Statements, the Company had not issued guarantees in favour of third parties and there were no commitments in place, except for those envisaged and expressly regulated by the contracts relating to the covered bond transaction and concerning the related "separate assets".

L. COVERED BONDS

In the absence of specific tables of breakdown as required by the Bank of Italy's Order of 16 December 2009 and by the Bank of Italy's Order of 13 March 2012 and related updates, it was deemed appropriate to report any disclosure provided in this section by adopting the information structure that is expressly required for part "F. Securitisation of Receivables".
Below is reported the breakdown of the initial portfolio and of that subsequently purchased, as well as the funds borrowed for their acquisition in the form of subordinated loans obtained from the assignor bank.

Assignor		Face Value	Provision for bad debts	IAS adjustments	Price of assignment
Banca Popolare di Sondrio S.c.p.A.	initial portfolio	809,619,781	6,055,772	1,813,395	801,750,613
Banca Popolare di Sondrio S.c.p.A.	assignment 15/12/2015	204,106,160	1,527,926	569,935	202,308,299
Banca Popolare di Sondrio S.c.p.A.	assignment 11/02/2016	582,101,182	682,661	677,988	580,740,533
Banca Popolare di Sondrio S.c.p.A.	assignment 15/11/2016	227,485,350	325,402	730,295	226,429,654
Banca Popolare di Sondrio S.c.p.A.	assignment 01/10/2018	308,687,848	425,976	1,025,056	307,236,816
Banca Popolare di Sondrio S.c.p.A.	assignment 01/10/2018	325,298,369	808,995	1,156,390	323,332,984
Total Receivables purchased		**2,457,298,690**	**9,826,732**	**5,973,059**	**2,441,798,899**

The subordinated loan disbursed by Banca Popolare di Sondrio S.c.p.A. on 16 June 2014 in an amount equal to the price of assignment, is regulated by interest to be paid out on each payment date, equal to a base interest that can be calculated as 1.0% of the amount disbursed for the period of quarterly accrual and an additional amount, the so-called Premium Interest, corresponding to the difference between the funds available on account of interest of the guarantor and any other amount whose payment is due on a priority basis in accordance with the priority order of payments.

Loans may be repaid on each payment date in accordance with the applicable priority order of payments and within the limits of funds available on account of capital, provided that such payment does not result in a violation of the tests contained in the contracts.

Section I is dedicated to the information relating to the covered bond transaction.

INFORMATION RELATING TO THE SUMMARY STATEMENT

Based on the information reported in the paragraph on Transactions carried out of Part A.1, Section 1 and Section 2, the structure and form of the summary statement are in line with the Instructions that were issued by the Bank of Italy by Order dated 15 December 2015.

It should be noted that, pending official rulings in this regard, these policies are not affected by the measurement changes made by Legislative Decree 139/15, but are consistent with the accounting policies applied in previous years. They are, in fact, the most suitable option to reflect the financial features of the specific nature of the Company's business and to allow the reconciliation of these financial statements and the remaining financial reporting that is required to be submitted by the Company.

The entries connected to the receivables relating to the separate assets correspond to the values inferred from the accounting and from the IT system of the Servicer, Banca Popolare di Sondrio S.c.p.A..

A. Securitised assets

A.1 Receivables

Receivables have been entered at their assignment value, which, pursuant to article 7-*bis* of Law no. 130/1999, corresponds to the entry value of the same in the last financial statements approved by the Assignor. These receivables have been valued according to the methods used by the assignor for measuring its receivables. The value of the receivables was possibly decreased to adjust it to the presumed realisable value on the basis of the information provided by the Servicer. They include accrual for interest income which accrued on an accrual basis and which are recoverable.

The adoption of IFRS 9 "Financial Instruments", with effect from 1 January 2018, in the measurement of loans on the part of the Servicer, Banca Popolare di Sondrio S.c.p.A., entailed a first-time adoption impact on the reopening balances of the provision for collective write-down at the beginning of the year, for an amount of Euro 1,788,165 charged to item "H.1) Value adjustments to receivables" through profit or loss.

The write-down on receivables is determined according to IFRS9, which requires financial assets that are not measured at fair value through profit or loss, consisting of debt securities and loans, to be subjected to the new impairment model based on expected loss (ECL – Expected Credit Losses).

According to the information provided by the Servicer, write-downs relate to the impairment of loans classified in Stage 1, Stage 2, Stage 3, depending on the evolution of the debtor's credit rating.

Below are listed the items for:

Stage 1: performing financial assets where the credit risk has not increased significantly compared to the date of initial recognition or the credit risk of which is low. The impairment is based on the estimated expected credit loss referring to a period of one year;

Stage 2: performing financial assets where the credit risk has increased significantly compared to the date of initial recognition. The impairment is commensurate with the estimated expected credit loss referring to a period equal to the entire residual life of the financial asset;

Stage 3: impaired financial assets (probability of default equal to 100%). The impairment is commensurate with the estimated expected credit loss on the specific financial asset throughout its entire life.

B. Uses of liquidity from management of receivables

B. 3 Cash

The credit balances in current accounts held with banks are entered in the Financial Statements at their nominal value, corresponding to their presumed realisable value and include the interest accrued at the date of these Financial Statements.

B. 4 Investments treated as Liquidity

This item includes the receipts that had already been collected on the receivables as at the reporting date, but not yet credited to the Company's current accounts.

B.5 Accrued income and prepaid expenses

Accrued income has been calculated on an accrual basis, by applying the principle of matching costs to revenues per financial year.

B.6 Other Receivables

The withholding taxes applied to the Company represent the deductions applied to interest income accrued on current accounts opened in favour of the separate assets at the date of these Financial Statements.

This receivable is shown at its presumed realisable value.

D. Loans received

The amount is entered at its face value.

E. Other liabilities

Payables are entered at their nominal value.

Accrued expenses have been calculated on an accrual basis, by applying the principle of matching costs to revenues per financial year.

Interest, commissions, income and charges

Costs and revenues referable to securitised assets, interest, commissions, income and charges arising from the covered bond transaction have been accounted for on an accrual basis.

Derivative contracts

The differential on the Interest Rate Swap agreement, which is entered to hedge the risk attached to the exchange rate fluctuations, is recognised under income or charges on an accrual basis, applied to the flows exchanged between the SWAP counterparties during the reporting period.

Settlement of separate assets

From the Summary Statement, table L1, it can be inferred that a break-even result was recorded in the financial year, through the allocation of the positive margin accrued in the year in full, in the form of a Premium on the subordinated loan.

Therefore, total Assets coincide with total Liabilities of separate assets.

TOTAL ASSETS	1,861,289,508
TOTAL LIABILITIES	1,861,289,508
FINANCIAL DIFFERENCE	**0**
RESULTS FROM PREVIOUS YEARS	0
RESULT FROM THE TRANSACTION FOR THE CURRENT FINANCIAL YEAR	**0**

	STATEMENT L.1	31/12/2018	31/12/2017
A.	**Securitised assets**	**1,570,792,927**	**1,470,458,645**
A.1	Receivables	1,570,792,927	1,470,458,645
B.	**Uses of liquidity from management of receivables**	**290,496,581**	**268,951,445**
B.3	Cash	276,087,489	253,756,357
B.4	Investments and investments treated as liquidity	11,275,454	12,048,985
B.5	Accrued income and prepaid expenses	3,119,194	3,138,445
B.6	Other receivables	14,444	7,658
D.	**Loans received**	**1,860,936,485**	**1,739,061,337**
E.	**Other liabilities**	**353,023**	**348,753**
E.1	Suppliers for services rendered to securitisation	-	361
E.2	Accrued expenses and deferred income	352,857	348,226
E.4	Sundry payables	166	166
G.	**Transaction commissions and fees**	**1,196,404**	**1,186,275**
G.1	For Servicing	1,105,700	1,088,229
G.2	For other services	90,704	98,046
H.	**Other charges**	**35,382,736**	**36,081,994**
H.1	Value adjustment on receivables	573,082	1,910,269
H.2	Interest expense	34,800,349	34,159,488
H.4	Other charges	9,305	12,237
I.	**Interest generated from securitised assets**	**32,128,160**	**32,086,485**
L.	**Other revenues**	**4,450,980**	**5,181,784**
L.2	Value write-backs on receivables	-	0
L.3	Swap differential receivable	4,316,991	4,334,312
L.4	Other revenues	133,989	847,472

(*) Items reported according to the accrual principle.

For the comments on the notes under the statement above, reference is made to the following pages.

	STATEMENT L.1 – BREAKDOWN OF ITEMS	31/12/2018	31/12/2017
A.1	**Receivables**	**1,570,792,927**	**1,470,458,645**
a.	Amounts falling due – capital quota	1,576,600,318	1,474,353,772
b.	Accrued interest income on loans	3,259,360	3,412,037
c.	Loan instalments fallen due	940,970	318,903
d.	Loan instalments fallen due – interest	278,189	121,152
e.	Receivables from customers for default interest	2,343	2,566
f.	Provision for bad debts for default interest	(11)	(11)
g.	Value adjustment to receivables at amortised cost	(3,493,141)	(3,089,561)
h.	Provision for the write-down of purchased receivables	(9,398,810)	(4,660,214)
i.	Positive measurement of receivables at FV	2,603,709	-
B.3	**Cash**	**276,087,489**	**253,756,357**
a.	Collection account	272,956,021	247,685,852
b.	Reserve account	2,915,268	5,862,738
c.	Payments account	216,200	207,767
B.4	**Investments and investments treated as liquidity**	**11,275,454**	**12,048,985**
a.	Receivables for amounts to be collected	11,275,454	12,048,985
B.5	**Accrued income and prepaid expenses**	**3,119,194**	**3,138,445**
a.	Accrued income on swap	3,119,194	3,138,445
B.6	**Other receivables**	**14,444**	**7,658**
a.	Advances for expenses on recurring operations	14,372	7,586
b.	Withholding tax receivables from the Tax Office on interest income from current account	72	72
D.	**Loans received**	**1,860,936,485**	**1,739,061,337**
a.	Payables for subordinated loan 1	1,841,798,900	1,718,465,916
b.	Payables for subordinated loan	15,556,309	17,301,695
c.	Payables for interest on subordinated loan	3,581,276	3,293,726
E.1	**Suppliers for services rendered to securitisation**	**-**	**361**
a.	Suppliers	-	361
E.2	**Accrued expenses and deferred income**	**352,857**	**348,226**
a.	Accrued expenses for servicing fees	341,850	337,357
b.	Accrued expenses	11,007	10,869
E.4	**Sundry payables**	**166**	**166**
a.	Withholding tax payables to the Tax Office under Article 25-25 *bis*	166	166
G.1	**Servicing commissions**	**1,105,700**	**1,088,229**
a.	Servicing	1,105,700	1,088,229
G.2	**Commissions for other services**	**90,704**	**98,046**
	Corporate Expenses	57,456	64,259
	Ongoing Expenses	33,248	33,787
H.1	**Value adjustments to receivables**	**573,082**	**1,188,348**
b.	General write-down of receivables	3,929,601	1,910,269
c.	Proceeds from receivables measured at FV	(2,603,710)	0
d.	Revenues for IAS adjustments	(752,809)	(721,921)
H.2	**Interest expense**	**34,800,349**	**34,159,488**
a.	Interest expense on subordinated loans	17,256,390	16,924,731

	b.	Interest expense on variable-rate subordinated loans	17,543,959	17,234,757
H.4		**Other charges**	**9,305**	**12,237**
	a.	Publication expenses	-	6,255
	b.	Contingent liabilities	-	4,521
	c.	Translation costs	1,015	1,015
	d.	Consultancy advice	-	361
	e.	Operating costs	552	85
	f.	Bank charges and expenses	72	-
	g.	Legal and notarial fees	7,666	-
I.		**Interest generated from securitised assets**	**32,128,160**	**32,086,485**
	a.	Interest income on loans	32,107,208	32,066,893
	b.	Default interest income on performing loans	20,952	19,592
L.3		**Swap differential receivable**	**4,316,991**	**4,334,312**
	a.	Charges/income from swap	4,316,991	4,334,312
L.4		**Other revenues**	**133,989**	**125,551**
	a.	Penalties receivable from third parties for damages	107,175	92,829
	b.	Indemnity of receivables	26,814	32,722

QUALITATIVE INFORMATION

L.2 DESCRIPTION AND PERFORMANCE OF THE TRANSACTION

Date of the transaction

The transaction was completed through the execution of the assignment agreement of receivables on 30 May 2014. This agreement regulates the assignment of the initial portfolio of receivables and the subsequent assignments which will be included in a single issue of covered bonds issued by Banca Popolare di Sondrio S.c.p.A., in the context of which the Company acts in the capacity as Guarantor through the provision of an irrevocable, unconditional and autonomous first-demand guarantee in favour of the holders of covered bonds.

The purchase by the Guarantor of receivables was financed through the Subordinated Loan.

- Date of the agreement of the Initial Assignment (legal effect): 30/05/2014
- Effective date of the economic effects of the Initial Assignment: 01/06/2014
- Valuation date of the Initial Portfolio: 31/05/2014
- Date of issue by Banca Popolare di Sondrio S.c.p.A. of the first series of covered bonds: 05/08/2014
- Date of signature of the guarantee on covered bonds: 22/07/2014
- Date of disbursement of the First Subordinated Loan: 16/06/2014

Assignor

- Company/Business Name: Banca Popolare di Sondrio S.c.p.A.
- Legal status: Cooperative Company limited by shares (*Società Cooperativa per Azioni*)
- Registered Office: Piazza Garibaldi no. 16, Sondrio 23100
- Fiscal code and Register of Companies: 00053810149
- Register of Banks: 5696.0
- Banking group: Banca Popolare di Sondrio Banking Group

Assigned receivables

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

➢ Price of assignment of the First Portfolio (including accruing interest):	Euro 801,750,613
➢ Type of assets:	The portfolio is made up of receivables arising from: residential loans.
➢ Nature of purchased receivables:	The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 67 of 7 June 2014, also in order to notify the assignment to debtors.
➢ Quality of receivables purchased:	At the time of the assignment, receivables were classified as performing loans since the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a second portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

➢ Price of assignment of the Second Portfolio (including accruing interest):	Euro 202,308,299
➢ Type of assets:	The portfolio is made up of receivables arising from: residential loans.
➢ Nature of purchased receivables:	The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 143 of 12 December 2015, also

in order to notify the assignment to debtors.

- Quality of receivables purchased: At the time of the assignment, receivables were classified as performing loans based on the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a third portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

- Price of assignment of the Third Portfolio (including accruing interest): Euro 580,740,533.41

- Type of assets: The portfolio is made up of receivables arising from: residential loans.
- Nature of purchased receivables: The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 15 of 4 February 2016, also in order to notify the assignment to debtors.
- Quality of receivables purchased: At the time of the assignment, receivables were classified as performing loans based on the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a fourth portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

- Price of assignment of the Fourth Portfolio (including accruing interest): Euro 226,429,653

- Type of assets: The portfolio is made up of receivables arising from: residential loans.
- Nature of purchased receivables: The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 132 of 8 November 2016, also to notify the assignment to debtors.
- Quality of receivables purchased: At the time of the assignment, receivables were classified as performing loans on the basis of the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a fifth portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

- Price of assignment of the Fifth Portfolio (including accruing interest): Euro 307,236,816

- Type of assets: The portfolio is made up of receivables arising from residential loans.
- Nature of purchased receivables: The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 118 of 7 October 2017, also in order to notify the assignment to debtors.
- Quality of receivables purchased: At the time of the assignment, receivables were classified as performing loans based on the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

The Assignor has assigned, through an assignment without recourse (*pro soluto*), pursuant to and for the purposes of the combined provisions of articles 1 and 4 of Law no. 130 of 30 April 1999, a sixth portfolio of monetary receivables and related accessory rights, classified as performing loans pursuant to the Supervision Instructions for Banks, arising from land and/or residential mortgage loan agreements, entered into by the Assignor in favour of individuals and companies.

- Price of assignment of the Sixth Portfolio (including accruing interest): Euro 323,332,983
- Type of assets: The portfolio is made up of receivables arising from residential loans.
- Nature of purchased receivables: The features of the purchased receivables were published, in detail, in the Official Gazette (*Gazzetta Ufficiale*), part II, no. 116 of 4 October 2018, also in order to notify the assignment to debtors.
- Quality of receivables purchased: At the time of the assignment, receivables were classified as performing loans because of the criteria applied by the Assignor in compliance with the regulations issued by the Bank of Italy.

Performance of the transaction

The transaction is being carried out regularly and no irregularities have been reported with respect to the provisions under the contractual documentation.

Specifically, in relation to the payments referable to the subordinated loan, it should be noted that they were made in accordance with the payment priority order prepared by the Guarantor Calculation Agent.

Compliance with the ratios indicated below was monitored, on a quarterly basis, by the Asset Monitor of the transaction, which prepares, always on a quarterly basis and at the request of the issuer of the CBs, a Report which analyses the following benchmarks:

- Nominal Value Test: the overall nominal value of the assets comprising the separate assets must be equal at least to the nominal value of the Covered Bonds in place; as long as the Asset Coverage Test is passed, it will not be necessary to also carry out the Nominal Value Test;

- Net Present Value Test: the present value of the assets comprising the separate assets, net of all transaction costs to be borne by the Guarantor, including expected costs and charges from derivative contracts (if any) entered into to hedge financial risks in relation to the transaction, must be equal at least to the net present value of the Covered Bonds in place;

- Interest Coverage Test: interest and any other income generated from assets comprising the separate assets, net of costs to be borne by the Guarantor, must be sufficient to cover interest and costs payable by the issuing bank on the Covered Bonds in place, taking account of derivative contracts (if any) entered into to hedge financial risks in relation to the transaction;
- Asset Coverage Test: it verifies, in a dynamic manner, that the assets comprising the separate assets, which are weighted differently according to the type and quality, can ensure the minimum level of overcollateralization required by the rating agency.

It is confirmed that the abovementioned ratios had been complied with until the reporting date.

Other information relating to significant events

No other information relating to significant events are reported.

L.3 INDICATION OF THE PARTIES INVOLVED

Guarantor of the CBs	POPSO Covered Bond S.r.l.
Issuer of the CBs	Banca Popolare di Sondrio S.c.p.A..
Assignor	Banca Popolare di Sondrio S.c.p.A..
Originator	Banca Popolare di Sondrio S.c.p.A.
Servicer	Banca Popolare di Sondrio S.c.p.A.
Guarantor Corporate Servicer	Securitisation Services S.p.A.
Guarantor Calculation Agent	Securitisation Services S.p.A.
Guarantor Paying Agent	Banca Popolare di Sondrio S.c.p.A.
Issuer Paying Agent	Banca Popolare di Sondrio S.c.p.A.
Luxembourg Listing Agent	BNP Paribas Securities Services, Luxembourg branch.
Representative of the Covered Bonds	Securitisation Services S.p.A.
Liability Swap Provider	BNP Paribas
Cash Manager	Banca Popolare di Sondrio S.c.p.A..
Test Calculation Agent	Banca Popolare di Sondrio S.c.p.A..
Asset Monitor	BDO Italia S.p.A..

Obligations of the assignor

At the date of assignment, the Company in its capacity as Guarantor and Banca Popolare di Sondrio S.c.p.A. in its capacity as assignor entered into a guarantee and indemnity agreement pursuant to which the assignor made specific representations and warranties in favour of the Guarantor in relation to the portfolio of receivables assigned and agreed to indemnify the Guarantor in relation to certain costs, expenses and liabilities which the latter should incur in relation to the purchase and ownership of the portfolio.

For the illustration of any other possible obligations of the assignor and of any other party involved in the transaction for any reason whatsoever, reference is made to section L.5 Additional financial transactions.

Contractual relationships between the parties involved

The Guarantor has appointed Banca Popolare di Sondrio S.c.p.A. as Servicer for the management of receipts on the securitised portfolio. Pursuant to Law no. 130/1999, the Servicer is responsible for monitoring the transaction so that it may be carried out in accordance with law and the prospectus.

Any receipts from the receivables are credited to the Italian Collection Account, which is registered in the name of the Guarantor and held with the Account Bank (BNP Paribas Securities Services, Milan Branch).

On the basis of the reports provided by the Servicer in relation to the performance of the transaction and, more specifically, to the receipts on receivables and the other items which contribute to the setting-up of the funds available to the Guarantor, Securitisation Services S.p.A., in its capacity as Guarantor Calculation Agent, distributes these funds at each date of payment on account of fees and expenses to the various persons which have been appointed to carry out specific functions for the separate assets and by way of remuneration of the subordinated loan. Paragraph L.4 considers, more in detail, the funds available to the Guarantor and the priority order that it is required to comply with to make payments to the counterparties.

On the contrary, the management of administrative and accounting services is responsibility of Securitisation Services S.p.A., in the capacity as Guarantor Corporate Servicer.

The role of Representative of the Holders of covered bonds is carried out by Securitisation Services S.p.A..

L.4 CHARACTERISTICS OF THE ISSUES

For information purposes, below is reported the following information relating to the bonds issued by Banca Popolare di Sondrio S.c.p.A., for which the vehicle performs the duties of Guarantor.

Series and Class	Series 1
ISIN code	IT0005039711
Issue date	05/08/2014
Maturity date	05/08/2019
Extended maturity	05/08/2020
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Benchmark	1.375%
Coupon	Annual
Applicable law	Italian Law

Series and Class	Series 2
ISIN code	IT0005175242
Issue date	04/04/2016
Maturity date	04/04/2023
Extended maturity	04/04/2024
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Benchmark	0.750%
Coupon	Annual
Applicable law	Italian Law

Allocation of cash flows arising from the portfolio of receivables

The allocation of the cash flows arising from the portfolio of purchased receivables follows the order provided for in the Intercreditor Agreement, or Agreement between the creditors.

The funds on account of interest available to the Guarantor are allocated according to the following priority order:

- payment of corporate expenses and reinstatement of the Retention Amount;
- payment to the Company's Agents and the Representative of covered bonds;
- payment to the Swap counterparty;
- payment of the Required Reserve Amount;
- payment to the Swap counterparty in the case of a Swap Trigger Event;
- payment of any other amounts arising from the Securitisation Documents;
- payment of interest on the Subordinated Loan;
- payment of additional interest on the Subordinated Loan.

L.5 ADDITIONAL FINANCIAL TRANSACTIONS

Interest rate risk hedging

On 29 July 2014 POPSO Covered Bond S.r.l. entered into an Interest Rate Swap contract in order to hedge the interest rate risks arising from the misalignment between interest income flows on the Portfolio and interest expense flows on the first series of covered bonds issued by Banca Popolare di Sondrio S.c.p.A. within the programme that, in a Post Issuer Default scenario, should be paid by the Guarantor.

On 24 March 2016 POPSO Covered Bond S.r.l. also entered into an Interest Rate Swap contract to hedge the interest rate risks arising from the misalignment between interest income flows on the Portfolio and interest expense flows on the second series of covered bonds issued by Banca Popolare di Sondrio S.c.p.A. within the programme that, in a Post Issuer Default scenario, it should be paid by the Guarantor.

Required Reserve Amount

Starting from the first date of payment by the guarantor, a cash reserve was set aside, which was equal to the sum of:

- the expenses incurred by the Company, to be paid on the subsequent payment date;
- the senior Agents' fees to be paid on the subsequent payment date;
- for each of the covered bonds not hedged by the Liability Swap, the coupons accruing in the subsequent quarter;
- for each of the covered bonds that are fully hedged by the Liability Swap, the maximum of the swap amount that the vehicle must pay on the subsequent payment date and the coupon accruing in the subsequent quarter;
- for each of the covered bonds that are partially hedged by the Liability Swap, the maximum of the swap amount that the vehicle must pay on the subsequent payment date and the coupon accruing in the subsequent quarter for the portion hedged by the Liability Swap and the coupon accruing in the subsequent quarter for the portion not hedged by the Liability Swap.

Therefore, this reserve ensures, also in the case of the issuer's default, the payment of the senior expenses incurred by the guarantor, as well as the payment of the coupons on the covered bonds issued for the subsequent quarter.

L.6 OPERATIONAL POWERS OF THE ASSIGNEE COMPANY

POPSO Covered Bond S.r.l., as assignee and guarantor, has operational powers limited by its articles of association. Specifically, section 3 provides that:

"The sole purpose of the Company is the acquisition from banks of the assets listed below, for valuable consideration, within one or more issues (including both single issues and issue programmes) of covered bonds (*Obbligazioni Bancarie Garantite*) implemented pursuant to article 7-*bis* of Law no. 130 of 30 April 1999, as possibly amended and supplemented, and related implementing provisions:

(i) land and mortgage loans, which can also be identified in bulk;

(ii) receivables that are claimed from or secured by public authorities, which can also be identified in bulk;

(iii) securities issued within securitisation transactions concerning receivables that are of the same type;

(iv) additional eligible assets or integration eligible assets that are permitted by the aforesaid Regulations through the raising of loans granted or secured also by the assignor banks, as well as the provision of guarantees issued by the same banks or by other banks.

The Company will carry out the abovementioned activities according to such terms and conditions and in such manners as those set out in the regulations applicable to the issues of covered bonds pursuant to article 7-*bis* of Law no. 130 of 30 April 1999, as possibly amended and supplemented and related implementing provisions.

In accordance with the aforesaid provisions of law, the receivables and securities purchased by the Company and the amounts paid out by the related debtors are aimed at satisfying the claims, also pursuant to article 1180 of the Italian Civil Code, of the holders of the covered bonds referred to in article 7-*bis*, paragraph 1, of Law no. 130 of 30 April 1999 and issued within the context of the issues in which the Company participates and to the benefit of which the Company has provided guarantees, as well as of the counterparties to the derivative contracts entered into to hedge the risks associated with the receivables and securities purchased and to any other additional contract. They are also aimed at the payment of other transaction costs, on a priority basis with respect to the repayment of loans granted or secured also by the assignor banks pursuant to article 7-*bis*, paragraph 1, of Law no. 130 of 30 April 1999.

Any receivables and securities purchased by the Company within each issue transaction or programme constitute assets which are separate for all purposes both from the Company's assets and from those relating to other issue transactions or programmes, in relation to which no actions may be taken by any creditors other than the holders of the covered bonds issued and by the additional creditors referred to in the previous paragraph.

Within the limits permitted by Law no. 130 of 30 April 1999, and related implementing provisions, the Company may also carry out additional transactions to be entered into for the provision of guarantees and the successful completion of the issues of covered bonds in which it participates, as well as may carry out, in cases when it is permitted by Law no. 130/1999 and related implementing provisions, and according to the procedures and within the limits set out therein, transactions of re-investment in other financial assets of funds deriving from the management of the receivables and securities which are purchased pursuant to these articles of association and which are not immediately used to satisfy the rights of the holders of covered bonds (issued within these issues) and to pay transaction costs.

Within the issue of covered bonds in which the Company participates, and in compliance with the provisions laid down under Law no. 130/1999 and related implementing provisions, the Company may appoint third-party persons for the collection of any purchased receivables and for the provision of cash and payment services; it may also carry out any other activity permitted by Article 7-*bis* of Law no. 130/1999 and related implanting provisions."

All the main operational activities connected with the management of the transaction have been contracted out to third parties (see point L.3).

QUANTITATIVE INFORMATION

L.7 FLOW DATA RELATING TO RECEIVABLES

Description	2018	from the inception to 31/12/2017
Opening Balance of receivables at the beginning of the period	**1,470,458,646**	**0**
Receivables purchased	323,332,984	2,118,465,915
Accrued interest	32,214,382	105,016,586
IAS adjustment	752,809	1,727,108
Value write-down/write-back on Receivables	(1,325,891)	4,362,452
Default interest income	20,952	97,020
Receipts	(254,660,954)	(759,210,435)
Closing Balance of receivables at the end of the period	**1,570,792,928**	**1,470,458,646**

I.8 TREND IN OVERDUE RECEIVABLES

Description	2018	2017
Opening Balance of receivables at the beginning of the period	**442,621**	**726,325**
Receivables purchased	101,898	6,997
Accrued instalments	142,652,605	132,838,604
Instalments collected /repurchases	(141,975,623)	(133,129,305)
Closing Balance of receivables at the end of the period	**1,221,502**	**442,621**

(*) The amounts have been recalculated by also considering the overdue interest.

The collection and recovery of overdue receivables are under the responsibility of Banca Popolare di Sondrio Sc.p.A., according to the Servicing Agreement.
The receivables in the portfolio as at 31 December 2018 were written back, on the instructions of the Servicer, in order to adjust the book value of the securitised portfolio at its presumed realisable value, which reflects the actual prospects of recovery of the receivables themselves. Specifically, this presumed realisable value has been estimated based on a new specific calculation model, which has allowed a more exact allocation of the credit risk for each position in the securitised portfolio.

During the year the Servicer continued to monitor the receivables and took recovery actions according to the manners set out in the Servicing Agreement.

L.9 CASH FLOWS

Inflows	2018	2017
Opening balance	253,756,357	341,368,630
Receipts on securitised receivables	255,461,299	255,562,952
Proceeds collected on the Swap income	6,387,251	7,062,500
Total Inflows during the Year	**515,604,907**	**603,994,082**

Outflows	2018	2017
Payment of the Issuer Retention Amount	34,870	63,280
Payment of the Servicing Fees	1,101,207	1,098,876
Payment of the Premium on subordinated loan	19,289,345	19,525,004
Payment of interest on subordinated loan	0	3,093,968
Interest paid on subordinated loans	16,968,840	13,631,005
Repayment of subordinated loans	200,000,000	310,000,000
Payment of ongoing expenses to counterparties	72,148	73,647
Charges paid on the Swap expense	2,051,009	2,751,944
Total Outflows during the Year	**239,517,419**	**350,237,725**

The imbalance between inflows and outflows represents the balance of current accounts at 31 December 2018 (items B.3 of the summary statement of securitised assets and loans received).

It should be noted that some financial flows referred to in the tables above took place by offsetting credit and debit flows: specifically, the price of assignment of the second assigned portfolio was paid by offsetting the subscription of the loan.

On the basis of the financial plans provided by the Servicer, it is expected that receipts from receivables will be, during 2019, about Euro 167 million; this forecast does not take into account any possible delayed payment, classifications to doubtful loans and early redemptions.

L.10 SITUATION OF GUARANTEES AND LIQUIDITY FACILITIES

There are no liquidity facilities.

I.11 BREAKDOWN BY RESIDUAL LIFE

Assets

- **Receivables**

Residual Life	Balance of Receivables – FY 2018
01) Until 3 months	494,322
02) From 3 months to 1 year	2,446,106
03) From 1 year to 5 years	64,175,014
04) Beyond 5 years	1,512,744,236
Indefinite maturity (***)	1,221,502
Total receivables at the end of the Year:	1,581,081,180

The balance of receivables is stated by including the collective provision for bad debts, the fair value measurement of assets that can no longer be classified as financial assets measured at amortised cost and the IAS adjustment for Euro 10,288,252.

- **Other Assets**

Other Assets, made up of "Cash" (item B.3 of the summary statement), "Investments and Investments treated as Liquidity" (item B.4 of the summary statement), "Accrued income and prepaid expenses" (item B.5 of the summary statement) and "Other Receivables" (item B.6 of the summary statement) have a maturity of within 3 months, except for the Receivable from the Tax Office for the deductions applied to interest income from current accounts (item B.6a of the summary statement), which has an indefinite term maturity.

Liabilities

- **Other Liabilities**

The items "Suppliers for services rendered to securitisation", "Accrued expenses and deferred income", "Payables to the Originator" and "Sundry Payables" (items E.1, E.2., E.3. and E.4 of the summary statement) have a maturity of less than 3 months.

The loans received have a residual maturity equal to the redemption of the last series of bonds issued.

L.12 BREAKDOWN BY GEOGRAPHICAL AREA

As at 31 December 2018 all receivables were denominated in Euros.

Geographical Area	Balance of Receivables – FY 2018
Italy	1,581,081,180
Total receivables at the end of the Year:	1,581,081,180

The balance of receivables is stated by including the collective provision for bad debts, the fair value measurement of assets that can no longer be classified as financial assets measured at amortised cost and the IAS adjustment for Euro 10,288,252.

I.13 RISK CONCENTRATION

Classes of amount (Euro)	Number of Customers	Balance of Receivables – FY 2018
01) 0 – 25,000	6,680	23,397,291
02) 25,001 – 75,000	6,262	320,918,071
03) 75,001 – 250,000	7,922	997,627,961
04) Beyond 250,000	620	239,137,856
Total receivables at the end of the Year:	21,484	1,581,081,180

The balance of receivables is stated by including the collective provision for bad debts, the fair value measurement of assets that can no longer be classified as financial assets measured at amortised cost and the IAS adjustment for Euro 10,288,252.

At 31 December 2018 there were no receivables whose due capital was more than 2% of the total receivables in portfolio.

Section 2 – SECURITISATION TRANSACTIONS, DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION SPVs) AND TRANSFERS OF ASSETS

This Section is not applicable since the Company is not an originator intermediary in securitisation transactions.

Section 3 - INFORMATION ON RISKS AND THE RELATED HEDGING POLICIES

3.1 Credit risk

QUALITATIVE INFORMATION

With reference to the corporate assets, the Company mainly claims receivables from separate assets because of the charge-back of operating costs. Given the collection forecasts on receivables from separate assets and the priority in which these receipts will be applied to the payment of the abovementioned receivables, it is believed that no risks exist in relation to the possibility of them being recovered.

QUANTITATIVE INFORMATION

The quantitative information can be exhaustively inferred from what is reported in part B of the Notes to the Financial Statements.

3.2 Market risk

QUALITATIVE INFORMATION

The Company has no financial assets and liabilities which expose it to significant interest rate and price risks. Furthermore, the Company is active at a domestic level only and, accordingly, it is not exposed to exchange risks.

QUANTITATIVE INFORMATION

The quantitative information can be exhaustively inferred from what is reported in part B of the Notes to the Financial Statements.

As a result of the principle of segregation of securitised assets as required by Law no. 130/1999, the Company does not assume credit or market risks (if any) on the receivables regarding the implementation of the covered bond transaction that are instead transferred to the Subordinated Loan Provider.

3.3 Operating risks

QUALITATIVE INFORMATION

As regards operating risks, it is recalled that the Company has no employees and the performance of its functions, together with the connected operating risk, was delegated to entities contractually appointed for the purpose.

QUANTITATIVE INFORMATION

Given the Company's scope of operations, this request for information is not considered to be applicable.

3.4 Liquidity risk

QUALITATIVE INFORMATION

With reference to the corporate management, the Company believes that it has enough cash and cash equivalents to meet its financial commitments.

QUANTITATIVE INFORMATION

Because of the principle of segregation of securitised assets as required by Law no. 130/1999, the Company does not assume liquidity risks regarding the implementation of the covered bond transaction, given the limited recourse of all the obligations undertaken, that are instead transferred to the Subordinated Loan Provider.

As far as the liquidity risk is concerned, it should be pointed out that the transaction's structure, as regulated by the related contracts, provides for the Company to use, on an exclusive basis as at the date of payment of interest, any receipts from separate assets.

In any case, the transaction's structure provides for the Company to make recourse to the instruments specified under paragraph I.5 of the Notes to the Financial Statements if any receipts arising from securitised assets are not temporarily sufficient to meet the obligations undertaken by the Company.

Section 4 – INFORMATION ON EQUITY

4.1 The Company's equity

4.1.1 Qualitative information

In accordance with the provisions under article 7-*bis* of Law no. 130/1999, the Company has been established as a limited liability company and has a quota capital equal to Euro 10,000.00 fully paid-up. Given the sole purpose of the Company, it pursues the objective of preserving its equity over time, while obtaining the coverage of its operating expenses from the separate assets.

4.1.2 Quantitative information

4.1.2.1 The Company's equity: breakdown

	Items/values	Amount at 31/12/2018	Amount at 31/12/2017
1.	Quota capital	10,000	10,000
2.	Share premium	2,000	2,000
3.	Reserves		
	- retained earnings		
	a) legal reserve	134	134
	b) reserve required by the articles of association		
	c) own quotas		
	d) others		
	- others	0	0
4.	(Own quotas)		
5.	Valuation reserves		
	- Equity instruments at fair value through comprehensive income		
	- Hedging of equity instruments at fair value through comprehensive income		
	- Financial assets (other than equity instruments) at fair value through comprehensive income		
	- Intangible assets		
	- Hedging of foreign investments		
	- Cash flow hedge		
	- hedging instruments (items not designated)		
	- Foreign exchange differences		
	- Non-current assets held for sale and disposal groups of assets		
	- Financial liabilities at fair value through profit or loss (changes in credit rating)		
	- Special revaluation laws		
	- Actuarial gains/losses relating to defined-benefit plans		
	- Portion of valuation reserves relating to equity-accounted investments		
6.	Equity instruments		
7.	Profit (Loss) for the year	0	0
	Total	12,134	12,134

4.2 The regulatory capital and ratios

Given the scope of the Company's operations and the provisions reported in Section 4.1, this Section is deemed not applicable.

Section 5 – ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

According to what is reported in the Statement of Comprehensive Income, the Company's Profit/Loss coincides with its comprehensive income.

Section 6 – TRANSACTIONS WITH RELATED PARTIES

6.1 Information on the fees due to key executives

The Company has no employees, nor a board of statutory auditors.

An amount of fees of Euro 10,000.00 has been resolved in favour of the Board member Paolo Gabriele for the 2018 financial year.

6.2 Loans and guarantees issued to the benefit of directors and statutory auditors

Neither loans have been granted, nor have guarantees been issued, to the benefit of the members of the Board of Directors.

6.3 Information on transactions with related parties

With reference to the covered bond transaction, reference is made to paragraph L.3 of the Notes to the Financial Statements, which reports the complete list of the parties involved.

Pursuant to article 2497-*bis* of the Italian Civil Code, the statement attached hereto reports the essential data of the last approved financial statements of the company which carries out the direction and coordination activities, i.e. Banca Popolare di Sondrio S.c.p.A., which is registered in the Register of Banking Groups (*Albo dei Gruppi Bancari*) under no. 5696.0. The controlling company also prepares the Consolidated Financial Statements of the Group.

The essential data of the financial statements of Banca Popolare di Sondrio S.c.p.A. reported below have been taken from the related annual accounts at 31 December 2016. For an adequate and complete understanding of the financial position and cash flows of Banca Popolare di Sondrio S.c.p.A. at 31 December 2016, as well as of the result of operations achieved by the company in the financial year ended at that date, reference is made to the financial statements which, accompanied by the independent auditors' report, are available in the forms prescribed by law.

HIGHLIGHTS

(in €/mil.)	2017	2016	% Change
Balance Sheet			
Receivables from customers	21,819	21,332	2.28
Receivables from banks	2,815	2,760	2.01
Financial assets	11,879	7,938	49.65
Equity investments	507	487	3.98
Total assets	38,022	33,588	13.20
Direct deposits from customers	29,029	28,002	3.67
Indirect deposits from customers	28,550	26,888	6.18
Insurance deposits	1,336	1,266	5.50
Customers' assets under management	58,915	56,156	4.91
Other direct and indirect deposits	9,595	5,873	63.37
Equity	2,427	2,335	3.95
Income Statement			
Interest margin	426	415	2.52
Operating income	844	776	8.85
Result from current operations	175	106	65.75
Profit for the year	118	80	47.91

BALANCE SHEET
(in Euros)

ASSETS	31/12/2017	31/12/2016
10. Cash and cash equivalents	112,049,023	96,466,584
20. Financial assets held for trading	607,920.318	1,014,376,806
30. Financial assets at fair value	351,053,774	163,116,546
40. Financial assets available for sale	6,787,508,046	6,643,534,743
50. Financial assets held to maturity	4,132,571,684	117,022,971
60. Receivables from banks	2,815,465,621	2,759,906,193
70. Receivables from customers	21,819,028,458	21,331,910.550
100. Equity investments	506,727,965	487,346,548
110. Property. plant and equipment	184,145,045	170.969,964
120. Intangible assets	14,396,056	14,313,189
130. Tax assets	385,613,399	437,950.534
a) current	41,717,531	64,074,927
b) deferred	343,895,868	373,875,607
b1) referred to in law 214/2011	307,112,948	335,353,219
150. Other assets	305,819,797	350.831,386
Total assets	**38,022,299,186**	**33,587,746,014**

LIABILITIES AND EQUITY	31/12/2017	31/12/2016
10. Payables to banks	5,635,658,170	2,249,796,181
20. Payables to customers	26,244,477,812	24,913,251,427
30. Outstanding securities	2,784,807,929	3,089,135,232
40. Financial liabilities held for trading	51,079,682	87,615,749
80. Tax liabilities	27,779,910	30.470.573
b) deferred	27,779,910	30.470.573
100. Other liabilities	629,221,765	666,090.044
110. Severance pay	42,848,291	42,271,279
120. Provisions for risks and charges	179,477,008	174,329,787
a) Pension fund and similar obligations	141,658,773	130.873,531
b) Other provisions	37,818,235	43,456,256
130. Valutation Reserves	38,642,710	37,356,524
160. Reserves	856,064,897	803,540.688
170. Share premium reserves	79,005,128	79,005,128
180. Share capital	1,360.157,331	1,360.157,331
190. Own shares (-)	-25,321,549	-25,321,549
200. Profit (Loss) for the year (+/-)	118,400.102	80.047,620
Total liabilities and equity	**38,022,299,186**	**33,587,746,014**

INCOME STATEMENT

(in Euros)

Items	31/12/2017	31/12/2016
10. Interest earned and similar income	547,390.208	579,229,241
20. Interest expense and similar charges	-121,713,804	-164,028,900
30. Interest margin	**425,676,404**	**415,200.341**
40. Commissions earned	277,187,608	263,785,646
50. Commissions expense	-14,453,872	-14,274,152
60. Net commissions	**262,733,736**	**249,511,494**
70. Dividends and similar income	18,623,815	18,191,127
80. Net result from trading	37,930.083	12,589,330
100. Profits (Losses) from disposal or repurchase of:	95,243,843	76,011,011
a) receivables	-102	-79
b) financial assets available for sale	94,795,083	76,330.683
c) financial liabilities	448,862	-319,593
110. Net result from financial assets and liabilities at fair value	4,247,438	4,307,436
120. Operating income	**844,455,319**	**775,810.739**
130. Net value adjustments/write-backs for impairment of:	-274,949,214	-260.808,124
a) receivables	-231,983,535	-232,177,373
b) financial assets available for sale	-35,801,445	-25,188,829
c) other financial transactions	-7,164,234	-3,441,922
140. Net result from financial operations	**569,506,105**	**515,002,615**
150. Administrative expenses:	-438,614,938	-443,810.412
a) personnel costs	-189,379,026	-182,024,478
b) other administrative expenses	-249,235,912	-261,785,934
160. Net provisions for risks and charges	4,946,309	-1,279,781
170. Net value adjustments/write-backs on property. plant and equipment	-14,362,189	-14,190.987
180. Net value adjustments/write-backs on intangible assets	-14,118,928	-13,433,218
190. Other operating income/charges	68,152,303	64,901,082
200. Operating costs	**-393,997,443**	**-407,813,316**
210. Profits (Losses) from equity investments	-622,325	-1,680.491
240. Profits (Losses) from disposal of equity investments	12,354	10.374
250. Profit (Loss) from current operations. before tax	**174,898,691**	**105,519,182**
260. Income taxes for the year from current operations	-56,498,589	-25,471,562
270. Profit (Loss) from current operations. after tax	**118,400.102**	**80.047,620**
290. Profit (Loss) for the year	**118,400.102**	**80.047,620**

Section 7 - OTHER INFORMATION DETAILS

The Company has no employees. Therefore, it relies on external service providers for its functioning.

Statement of the fees accrued in the financial year for the services provided by the Independent Auditors EY S.p.A.

The fees indicated in the table are those agreed as per contract (net of VAT, refunds of expenses, Consob [Italian Securities and Exchange Commission] contribution and ISTAT [*Italian Institute of Statistics*] index adjustments).

Description of the service	Fees (net of VAT and Expenses)	Total
Audit of Financial Statements and audit of the report on operations' compliance with annual financial statements	3,500	3,500
Bookkeeping audits	1,000	1,000
Tax returns	500	500
Total	**5,000**	**5,000**

Allocation of profits

Dear Quotaholders,

the Financial Statements show a break-even result; therefore, there is no allocation of profits to be made.

Conegliano, 11 March 2019

POPSO Covered Bond S.r.l.

The Chairman of the Board of Directors

Gianpietro Macoggi