Pillar 3 Report
Public Disclosures
Banca Popolare di Sondrio Group

Reporting date: 30 June 2019

Date of publication: 29 August 2019

Banca Popolare di Sondrio
Società cooperativa per azioni
Head office and general management:
piazza Garibaldi 16 - 23100 Sondrio (SO)
Tel. 0342/528.111 – Fax 0342/528.204
Website: www.popso.it - E-mail: info@popso.it - Certified e-mail address: postacertificata@pec.popso.it
Sondrio Companies Register code: 00053810149
Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0.
Member of the Interbank Deposits Protection Fund
Fiscal code and VAT number: 00053810149
Share capital at 31/12/2018: € 1,360,157,331; Reserves at 31/12/2018: € 983,893,092 (Figures approved at the shareholders' meeting of 27 April 2019)
Stock listed on the Mercato Telematico Azionario (MTA or Screen-Traded Market)

Contents

Introduction

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

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

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

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

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

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

Circular no. 285 includes the prudential rules applicable to Italian banks and banking groups, revised and updated to adapt national law to the changes introduced into the EU, with particular regard to the new regulatory and institutional framework of European banking supervision,

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

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

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

outlining in this a complete, organic, rational regulatory system integrated with directly applicable EU provisions, so as to facilitate their adoption by operators.

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

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

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

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

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

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

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

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

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

– the CRR, Part Eight "Disclosure by institutions" (articles 431 – 455) and Part Ten, Title I, Chapter 1 *"Own funds requirements, unrealised gains and losses measured at fair value and deductions"* (article 473-bis) and Chapter 3 *"Transitional provisions for disclosure of own funds"* (article 492)[2];

– the Bank of Italy Circular no. 285 of 17 December 2013, Part Two *"Application in Italy of the CRR"*, Chapter 13 *"Public disclosures"*;

– the regulatory or implementing technical standards issued by the European Commission to regulate:

  • the standard forms for the publication of information regarding the main characteristics of capital instruments;
  • the standard forms for the publication of information regarding own funds in the transitional period of application of the Basel 3 rules;
  • disclosure requirements on capital reserves;
  • standard forms for the publication of information on the indicators of systemic importance;
  • disclosures concerning unencumbered assets;
  • standard forms for the publication of information on leverage;

– the Guidelines issued by the European Banking Authority ("EBA") on specific aspects of the public disclosure requirements.

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

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

– EBA/GL/2016/11 Guidelines (version 2) on disclosure requirements pursuant to Part Eight of the CRR;

– EBA/GL/2017/01 Guidelines on Liquidity Coverage Ratio (LCR) disclosure to complement the disclosure of liquidity risk management under article 435 of the CRR;

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

– EBA/GL/2018/01 Guidelines on uniform disclosures under article 473-bis of the CRR as regards the transitional provisions for mitigating the impact of the introduction of IFRS 9 on own funds.

With the present half-year Public Disclosures, the Banca Popolare di Sondrio Group (also referred to as the "Group") intends to fulfil the applicable disclosure requirements envisaged in the “Pillar 3” legislation mentioned previously.

This document has been prepared by Banca Popolare di Sondrio, the Parent, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes (prudential consolidation area). The English translation of the document is made available to the public, together with the consolidated interim financial report at 30 June 2019, on the English version of the Bank's website (www.popso.it) following this pattern: “*About us - Reports and papers*", as allowed by the reference regulations. The Italian version is available on the Bank's website (www.popso.it) in the “*Informativa Societaria*" section.

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

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

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

Overview of the Document

Section 1 - Scope of application

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

Section 2 - Own funds

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

Section 3 - Capital requirements

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

Section 4 - Leverage

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

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

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

Section 6 - Credit risk: information on the portfolios subject to the IRB method

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

Section 7 - Liquidity risk

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

Summary of information published in accordance with CRR requirements

The following is a summary table that links the articles of Regulation (EU) no. 575/2013 ("CRR") indicating the relevant disclosure requirements for the Banca Popolare di Sondrio Group, accompanied by the respective disclosure frequency, with the sections of this document in which the qualitative or qualitative information required by the "Pillar 3" regulations are reported with regard to the Group's situation at 30 June 2019.

Reg. (EU) 575/2013 (CRR)	Article description	Frequency of publication	Section Public Disclosures at 30 June 2019
Art. 431	Scope of disclosure requirements	-	
Art. 432	Non-material, proprietary or confidential information	-	
Art. 433	Frequency of disclosure	-	
Art. 434	Means of disclosures	-	
Art. 435	Risk management objectives and policies	Annual	
		Semi-annual *information on LCR*	7 - Liquidity risk
Art. 436	Scope of application	Semi-annual	1 - Scope of application
Art. 437	Own funds	Semi-annual	2 - Own funds
Art. 438	Capital requirements	Semi-annual	3 - Capital requirements
Art. 439	Exposures to counterparty credit risk	Annual	
Art. 440	Capital buffers	Annual	
Art. 442	Credit risk adjustments	Annual	
Art. 443	Unencumbered assets	Annual	
Art. 444	Use of ECAIs	Annual	
Art. 445	Exposure to market risk	Annual	
Art. 446	Operational risk	Annual	
Art. 447	Exposures in equities not included in the trading book	Annual	
Art. 448	Exposure to interest rate risk on positions not included in the trading book	Annual	
Art. 449	Exposure to securitisation positions	Annual	
Art. 450	Remuneration policy	Annual	
Art. 451	Leverage	Semi-annual	4 - Leverage
Art. 452	Use of the IRB Approach to credit risk	Annual *full art. 452*	
		Semi-annual *information referred to in letters d), e) and f) of art. 452*	6 - Credit risk: information on the portfolios subject to the IRB method
Art. 453	Use of credit risk mitigation techniques	Annual	

Art. 473-bis	Introduction of IFRS 9	Semi-annual	5 - Effects of the IFRS 9 transitional provisions on Own Funds and capital ratios

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

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

Qualitative information

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

Parent Company:	Banca Popolare di Sondrio S.c.p.a. – Sondrio
Group Companies:	Banca Popolare di Sondrio (SUISSE) SA – Lugano (CH)
	Factorit S.p.a – Milan
	Sinergia Seconda S.r.l. – Milan
	Popso Covered Bond S.r.l. – Conegliano Veneto (TV)
	Banca della Nuova Terra S.p.A. – Milan

With respect to the scope of the Banking Group at 31 December 2018, it is worth noting that Prestinuova S.p.A. has been merged by incorporation into Banca della Nuova Terra S.p.A., both companies 100% owned by Banca Popolare di Sondrio S.c.p.a. The business combination transaction took effect for legal purposes as of 24 June 2019, although for accounting and tax purposes it was backdated to 1 January 2019.

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

The scope of consolidation for accounting purposes includes the companies over which the Parent Company exercises "control"; this, as defined by IFRS 10, exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee entity and has the ability to affect those returns through its power over the investee.

"Control" can be obtained in various ways, including by exposure to risks and returns of the investment, and not just as a consequence of the power to influence financial and operating policies of the investee. In particular, “control” is deemed to exist in the following circumstances:

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

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

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

The scope of consolidation also includes the equity investments where the Parent Company exercises a “significant influence”, which is assumed when the shareholding, directly or indirectly owned, ranges between 20% and 50%; or, whereas the interest is lower than 20%, if one or more of the following circumstances apply:

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

b) the Bank takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the Parent Company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

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

In compliance with the provisions of Regulation (EU) no. 575/2013 (“CRR”), these investments are deducted from Common Equity Tier 1 (CET1) Capital only for the amount exceeding 10% of this aggregate, calculated as indicated in art. 48, para. 1, letter b), points i) and ii) of the CRR; the portion of the investments included in the previous threshold, not being deducted from Own Funds, receives a risk-weighting factor of 250%.

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

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

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

Company name	*Head office*	*% Holding*	*Type of activity*	*IAS/IFRS accounting treatment*				*Regulatory treatment*		
				Line-by-line consolidation	*Valuation at equity*	*Valuation at cost*	*Non-consolidated*	*Line-by-line consolidation*	*Deducted from own funds / Subject to threshold*	*Inclusion in RWAs*
Banca Popolare di Sondrio (Suisse) S.A.	Lugano (CH)	100.00	Banking	X				X		
Banca della Nuova Terra S.p.a.	Milan	100.00	Banking	X				X		
Factorit S.p.a.	Milan	60.50	Financial	X				X		
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	100.00	Non-financial	X						X
Sinergia Seconda S.r.l.	Milan	100.00	Real Estate	X				X		
Pirovano Stelvio S.p.a.	Sondrio	100.00	Non-financial	X						X
Immobiliare San Paolo S.r.l.	Tirano	100.00 (1)	Real Estate	X						X
Immobiliare Borgo Palazzo S.r.l.	Tirano	100.00 (1)	Real Estate	X						X
Popso Covered Bond S.r.l.	Conegliano V.	60.00	Financial	X				X		
Centro delle Alpi Real Estate	Milan	100.00	Financial	X						X
Rajna Immobiliare S.r.l.	Sondrio	50.00	Real Estate		X					X
Alba Leasing S.p.a.	Milan	19.26	Financial		X				X	
Arca Vita S.p.a.	Verona	14.84	Insurance		X				X	
Arca Holding S.p.a.	Milan	21.14	Financial		X				X	
Unione Fiduciaria S.p.a.	Milan	24.00	Financial		X				X	
Polis Fondi Sgrpa	Milan	19.60	Financial		X				X	
Bormio Golf S.p.a.	Bormio	25.24	Non-financial			X				X
Lago di Como Gal S.c.r.l.	Canzo	28.95	Non-financial			X				X
Sofipo S.A.	Lugano (CH)	30.00 (2)	Financial		X				X	
Acquedotto dello Stelvio S.r.l.	Bormio	27.00 (3)	Non-financial			X				X
Sifas S.p.a.	Bolzano	21.61 (3)	Non-financial			X				X
Rent2Go S.r.l.	Bolzano	33.33	Non-financial		X					X
Cossi Costruzioni S.p.a.	Sondrio	18.25	Non-financial		X					X

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

Section 2 - Own funds (art. 437 CRR)

Qualitative information

Main characteristics of the elements constituting Own Funds

The key elements of Own Funds consist of:

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

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

Common Equity Tier 1 Capital (CET1)

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

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

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

The main Deductions from CET1 Capital consist of goodwill and other intangible assets and, from 30 June 2019, any amount of expected credit losses quantified through the risk parameters calculated with internal rating models that would exceed the total net adjustments for credit risk posted in the balance sheet (so-called "shortfall"), relating to the regulatory portfolios for which approval has been obtained from the Supervisory Authority for the purpose of measuring the capital requirements on credit risk under the Advanced Internal Rating-Based Approach ("Corporate" and "Retail" portfolios).

Additional significant Deductions from CET1 are:

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

Additional Tier 1Capital (AT1)

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

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

Tier 2 Capital (T2)

The Tier 2 Capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums
- Previous T2 instruments subject to transitional instructions (grandfathering)
- Instruments issued by subsidiaries and included in T2
- Deductions.

Transitional arrangements

At 30 June 2019, Own Funds were calculated in application of the prudential regulations that came into force on 1 January 2014, which transposed the new capital standards defined by the Basel Committee for Banking Supervision ("Basel 3 Framework").

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

The transition period also provides for safeguard clauses (known as "grandfathering") that allow the partial inclusion, with gradual phase-out by 2021, of previously issued equity instruments that do not meet all the requirements specified by the CRR for the computation in CET1, AT1 or T2.

Note that from 1 January 2018 unrealised gains and losses arising from exposures to EU central administrations classified in the "Financial assets measured at fair value through other comprehensive income" (FVOCI) portfolio are 100% included in / deducted from CET1 Capital.

As explained in greater detail in Section 5 of this document, the Group's Own Funds and prudential capital ratios at 30 June 2019 are also calculated in application of the transitional provisions set out in Regulation (EU) no. 2017/2395 of the European Parliament and Council of 12 December 2017, designed to mitigate the impact of the introduction of IFRS 9.

Regulatory requirements

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

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

The following capital reserves (known as "buffers") have to be added to these minimum ratios provided by the CRR:

- *Capital Conservation Buffer:* made up of an additional 2.5% of Common Equity Tier 1 Capital, intended to safeguard the minimum amount of regulatory capital under adverse market conditions. In this regard, with the 18th update of Circular no. 285/2013, the Bank of Italy, opting for the transposition at national level of the Basel 3 transitional regime envisaged in the CRD IV Directive, established that, from 1 January 2017, banks and banking groups were required to adopt a process to gradually introduce the capital conservation requirement, which provides for the application of a minimum reserve coefficient of:
  - 1.25% from 1 January 2017 to 31 December 2017
  - 1.875% from 1 January 2018 to 31 December 2018
  - 2.5% from 1 January 2019.
- *Countercyclical Capital Buffer:* this is also made up of Tier 1 Capital to protect the banking sector at times of excessive lending growth; it must be accumulated in periods of economic expansion to face any future losses that may arise in the downward phases of the cycle, grounded on a specific coefficient set by the Competent Authorities on a national basis; the countercyclical capital ratio relating to exposures to Italian counterparties is reviewed quarterly by the Bank of Italy.
- *Additional Reserves for systemically important banks at global or local level* (G-SIIs, O-SIIs): consisting of Tier 1 Capital; these apply to Global Systemically Important Institutions (G-SIIs) and Other Systemically Important Institutions (O-SIIs) to account for their greater contribution to financial stability risks. The buffer for G-SIIs can vary between a minimum of 1% and a maximum of 3.5%, whereas for O-SIIs a non-binding maximum threshold of 2% is foreseen.
- *Capital Reserve for systemic risk:* additional reserve of an amount equal to at least 1% of the related risk exposures, established by each individual EU Member State in order to mitigate

long-term non-cyclical macro-prudential risks and, in this way, cope with the negative effects of unexpected systemic crises.

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

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

Lower requirements were envisaged by the Group up to 31 December 2018, during the transitional phase of application of the Capital Conservation Buffer.

On 5 February 2019, on the basis of the evidence collected as part of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank notified Banca Popolare di Sondrio of the Supervisory Board's decision regarding the new minimum ratios to be applied on a consolidated basis for the year 2019, with effect from 1 March. The new minimum capital levels to be met by the Group are indicated below:

- a minimum requirement for Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the Pillar 1 regulatory requirement (4.5%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%), and an additional Pillar 2 requirement (2.25%);
- a minimum requirement for Tier 1 ratio of 10.75%, being the sum of the Pillar 1 regulatory requirement (6%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%), and an additional Pillar 2 requirement (2.25%);
- a minimum requirement for Total Capital ratio of 12.75%, calculated as the sum of the Pillar 1 regulatory requirement (8%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%), and an additional Pillar 2 requirement (2.25%).

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

A "Pillar 2 Guidance", which aims to offer a guideline to the prospective evolution of the Group's capital position, is added to the three minimum ratios. However, this parameter assumes a confidential nature and, unlike the above mentioned minimum capital requirements, is not publicly disclosed, as it is an element which, also according to the Supervisory approach, is not relevant for the calculation of distributable dividends.

Conditions for the inclusion of interim or year-end earnings

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

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

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

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

Quantitative information

The following tables summarise the main characteristics of the Group's equity instruments through the regulatory formats explaining consolidated Own Funds at 30 June 2019 compared with those at 31 December 2018, both calculated in application of the "phasing-in" regime of Basel 3 rules.

Composition of Own Funds

	30/06/2019	31/12/2018
A. Common Equity Tier 1-CET1 before the application of prudential filters	**2,732,119**	**2,652,172**
of which: CET1 instruments subject to transitional instructions	-	-
B. Prudential filters of CET1 (+/-)	-	-
C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)	**2,732,119**	**2,652,172**
D. Elements to be deducted from CET1	139,500	50,121
E. Transitional arrangements - Impact on CET1 (+/-), including minority interest subject to transitional arrangements	4,396	33,645
F. Total Common Equity Tier 1 - CET1 (C-D +/-E)	**2,597,015**	**2,635,696**
G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions	**9,583**	**9,042**
of which: AT1 instruments subject to transitional instructions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional instructions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions	-	-
L. Total Additional Tier 1 - AT1 (G-H+/-I)	**9,583**	**9,042**
M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions	**304,559**	**350,838**
of which: T2 instruments subject to transitional instructions	-	-
N. Elements to be deducted from T2	12,987	14,715
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional arrangements	-	
P. Total Tier 2 - T2 (M-N +/-O)	**291,572**	**336,123**
Q. Total Own funds (F+L+P)	**2,898,169**	**2,980,861**

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

The composition of Own Funds at 30 June 2019 takes account of the profit earned in the first quarter of the year, net of the estimated dividends to be distributed. The portion of profits accrued at 31 March and calculated among the positive elements of regulatory capital was authorised by the European Central Bank in compliance with the provisions of art. 26, para. 2 of Regulation (EU) no. 575 of 26/6/2013 ("CRR") for the purpose of determining the Common Equity Tier 1 Capital.

The evolution of the Group's capital compared with the situation at 31 December 2018 has been to a large extent affected by the use, recognised by the Supervisory Authority from 30 June 2019, of the Advanced Internal Rating-Based Approach (AIRB) for determining the capital requirement against credit risk for the "Corporate" and "Retail" exposure segments of the Parent Company Banca Popolare di Sondrio[3]. In particular, in addition to the benefits in the calculation of risk-weighted capital absorption referred to in Section 3, a shortfall item emerged for approximately Euro 80 million, as an additional element to be deduced from the Tier 1 Capital.

A further impact - although of a smaller size than the previous one - on the best quality capital components was reflected in the amount of the negative reserve from first-time adoption (FTA) of IFRS 9: the effect is connected to the re-determination, based on the classification of "Corporate" and "Retail" exposures provided by the transition from the Standardised to the new AIRB Approach, of the phased-in values of higher loan loss adjustments related to the adoption of the new standard; this led to the impossibility of recognising as positive capital items, according to the preferential treatment accorded by the so-called "IFRS 9 transitional regime", a part of the additional credit adjustments stemming from the application of the new accounting rules[4].

On the other hand, the positive changes in the equity reserves and the valuation reserves related to FVOCI securities, together with the portion of non-distributable profits accrued during the first quarter of the year, strengthened the amount of Tier 1 Capital.

A shrinkage in the computable values of the subordinated liabilities included in Tier 2 Capital, declining from the end of 2018 for the application of the phase-out arrangements of previously issued Tier 2 instruments, also affected Total Own Funds.

The table required by Annex IV "*Own funds disclosure template*" of the Implementing Regulation (EU) no. 1423/2013, with reference to the Group's situation at 30 June 2019, is provided below, prepared following the instructions contained in Annex V of the said Regulation.

		Amounts at 30/06/2019
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and related share premium accounts	2,735,585
	of which: share capital	1,360,157
	of which: share premium reserve	79,005
	of which: reserves - other	1,296,423
2	Retained earnings	-
3	Accumulated other comprehensive income (and other reserves) (*)	(43,708)
3a	Provisions for general banking risk	-

3 For further details on the adoption of the Advanced IRB approach, see Section 6 of this document.

4 See also Section 5 of this document.

4	Amount of qualifying items referred to in Article 484, paragraph 3, and the related share premium accounts subject to phase out from CET1	-
5	Minority interests (amount allowed in consolidated CET1)	44,812
5a	Independently reviewed interim profits, net of any foreseeable charge or dividend	29,128
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,765,816**
	Common Equity Tier 1 (CET1): regulatory adjustments	
7	Additional value adjustments (negative amount)	(4,064)
8	Intangible assets (net of the related tax liability) (negative amount)	(32,818)
9	Empty set in the EU	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of the related tax liability where the conditions in article 38, paragraph 3, are met) (negative amount)	(13,671)
11	Fair value reserves related to gains or losses on cash flow hedges	-
12	Negative amounts ("shortfalls") resulting from the calculation of expected loss amounts	(80,405)
13	Any increase in equity that results from securitised assets (negative amount)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct and indirect holdings by the institution of its own CET1 instruments (negative amount)	(37,844)
17	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-
18	Direct and indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
20	Empty set in the EU	-
20a	Exposure amount of the following items which qualify for a risk weighting (RW) of 1250%, where the institution opts for the deduction alternative	-
20b	*of which: qualifying holdings outside the financial sector (negative amount)*	-
20c	*of which: securitisation positions (negative amount)*	-
20d	*of which: free deliveries (negative amount)*	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in article 38, paragraph 3, are met) (negative amount)	-
22	Amount exceeding the 15% threshold (negative amount)	-
23	*of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	-
24	Empty set in the EU	-
25	*of which: deferred tax assets arising from temporary differences*	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(168,801)**
29	**Common Equity Tier 1 (CET1) capital**	**2,597,015**
	Additional Tier 1 (AT1): instruments	
30	Capital instruments and the related share premium accounts	-

31	*of which: classified as equity under applicable accounting standards*	-
32	*of which: classified as liabilities under applicable accounting standards*	-
33	Amount of qualifying items referred to in article 484, paragraph 4, and the related share premium accounts subject to phase out from AT1	-
34	Qualifying Tier 1 capital included in consolidated AT1 (including minority interests not included in row 5) issued by subsidiaries and held by third parties	9,583
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**9,583**
	Additional Tier 1 (AT1): regulatory adjustments	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Direct, indirect and synthetic holdings of AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-
39	Direct and indirect and synthetic holdings of AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct and indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
41	Empty set in the EU	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**
44	**Additional Tier 1 (AT1) capital**	**9,583**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,606,597**
	Tier 2 capital (T2): instruments and provisions	
46	Capital instruments and the related share premium accounts	304,348
47	Amount of qualifying items referred to in article 484, paragraph 5, and the related share premium accounts subject to phase out from T2	-
48	Qualifying Own Funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by affiliates and held by third parties	-
49	*of which: instruments issued by affiliates subject to phase out*	-
50	Credit risk adjustments	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**304,348**
	Tier 2 capital (T2): regulatory adjustments	
52	Direct and indirect holdings by an institution of its own T2 instruments and subordinated loans (negative amount)	(12,776)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
56	Empty set in the EU	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(12,776)**
58	**Tier 2 capital (T2)**	**291,572**
59	**Total capital (TC = T1 + T2)**	**2,898,169**

60	**Total risk weighted assets**	**16,755,407**
	Capital ratios and buffers	
61	**Common Equity Tier 1** (as a percentage of the total risk exposure)	*15.50%*
62	**Tier 1** (as a percentage of the total risk exposure)	*15.56%*
63	**Total capital** (as a percentage of the total risk exposure)	*17.30%*
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92, paragraph 1, letter a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	*2.65%*
65	*of which: capital conservation buffer requirement*	*2.50%*
66	*of which: countercyclical buffer requirement*	*0.15%*
67	*of which: systemic risk buffer requirement*	-
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of the risk exposure)	-
69	[not relevant in EU legislation]	-
70	[not relevant in EU legislation]	-
71	[not relevant in EU legislation]	-
	Amounts below thresholds for deduction (before risk weighting)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	128,273
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	223,258
74	Empty set in the EU	-
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in article 38, paragraph 3, are met)	100,747
	Applicable caps on the inclusion of provisions in Tier 2 capital	
76	Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (before the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 capital under the standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (before the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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

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

Reconciliation of carrying amount of Equity with Own Funds

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

The table below shows the reconciliation of Own Funds at 30 June 2019 and 31 December 2018 with the carrying amount of the Group's Equity.

	30/06/2019	31/12/2018
Consolidated equity	**2,721,168**	**2,650,822**
Adjustments for companies not belonging to the banking group	(1,718)	(1,812)
Carrying amount of equity (banking group)	**2,719,450**	**2,649,010**
Difference between consolidated profit at banking group level and profit included in Own Funds	(18,055)	(22,769)
Difference in the calculation of valuation reserves	(1,613)	320
Minority interests that can be included in CET1	44,812	38,512
Treasury shares as collateral for exposures	(12,474)	(12,901)
Further deduction for potential repurchase of treasury shares	-	-
Prudential filter for property disposals	-	-
A. Common Equity Tier 1-CET1 before the application of prudential filters	**2,732,119**	**2,652,172**
of which: CET1 instruments subject to transitional instructions	-	-
B. Prudential filters of CET1 (+/-)	-	-
C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A+/- B)	**2,732,119**	**2,652,172**
D. Elements to be deducted from CET1	139,500	50,121
E. Transitional arrangements - Impact on CET1 (+/-), including minority interest subject to transitional arrangements	4,396	33,645
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**2,597,015**	**2,635,696**
G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions	**9,583**	**9,042**
of which: AT1 instruments subject to transitional instructions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional instructions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions	-	-
L. Total Additional Tier 1 - AT1 (G-H+/-I)	**9,583**	**9,042**
M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions	**304,559**	**350,838**
of which: T2 instruments subject to transitional instructions	-	-
N. Elements to be deducted from T2	12,987	14,715
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional arrangements	-	-
P. Total Tier 2 - T2 (M-N+/-O)	**291,572**	**336,123**
Q. Total Own funds (F+L+P)	**2,898,169**	**2,980,861**

In further detail, the following is a reconciliation between the elements of Own Funds, with related prudential filters and deductions, and the Group's balance sheet line items at 30 June 2019, in accordance with the disclosure requirements provided by art. 437, para. 1, letter a) of the CRR.

ASSET ITEMS	**Accounting figures**		**Amount relevant for Own Funds**
	Accounting scope	***Prudential scope***	
70. Equity investments	227,977	263,245	-
100. Intangible assets	32,825	32,818	(32,818)
- of which: Goodwill	*12,632*	*12,632*	*(12,632)*
- of which: Other intangible assets	*20,193*	*20,186*	*(20,186)*
110. Tax assets	442,034	441,993	(13,671)
- of which b) deferred	*406,252*	*406,247*	*(13,671)*

LIABILITY ITEMS	**Accounting figures**		**Amount relevant for Own Funds**
	Accounting scope	***Prudential scope***	
10. Financial liabilities measured at amortised cost	37,974,863	37,974,989	279,006
c) Debt securities issued	3,157,452	3,157,452	279,006
- of which: Subordinated liabilities not subject to transitional provisions	*526,921*	*526,921*	*279,006*
- of which: Subordinated liabilities subject to transitional provisions	-	-	-
120. Valuation reserves	(37,756)	(37,948)	(39,562)
- of which: Actuarial profits (losses) on defined-benefit plans	*(67,670)*	*(67,670)*	*(67,670)*
- of which: Valuation reserves: Financial assets measured at fair value through other comprehensive income	*28,081*	*28,081*	*28,108*
150. Reserves	1,298,125	1,296,423	1,296,423
160. Share premium reserve	79,005	79,005	79,005
170. Share capital	1,360,157	1,360,157	1,360,157
180. Treasury shares (-)	(25,370)	(25,370)	(37,844)
190. Minority interests	93,440	93,440	67,171
- of which: to be included in CET1	-	-	*44,812*
- of which: to be included in AT1	-	-	*9,583*
- of which: to be included in T2	-	-	*12,777*
200. Profit for the period	47,007	47,183	29,128

OTHER ELEMENTS OF OWN FUNDS	**Amount relevant for Own Funds**
Other elements of Own Funds	(88,826)
- of which: Negative elements of Tier 2 capital	-
TOTAL OWN FUNDS	**2,898,169**

Main features of equity instruments

The following is the information on the main features of the equity instruments issued by the Group at 30 June 2019 presented according to the model contained in Annex II of the EU Implementing Regulation no. 1423/2019 of the European Commission dated 20 December 2013.

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0000784196
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Cooperative share of Banca Popolare (CRR, art. 29)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	1,322
9	Nominal amount of the instrument	1,360
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	N/A
12	Perpetual or dated	perpetual
13	Original maturity date	without maturity
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0005092884
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation

7	Instrument type *(types to be specified by each jurisdiction)*	Tier 2 instruments (CRR, art.63)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	105
9	Nominal amount of the instrument	200
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - amortised cost
11	Original date of issuance	30/03/2015
12	Perpetual or dated	at maturity
13	Original maturity date	30/03/2022
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	2.50%
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	senior
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0005135527
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Tier 2 instruments (CRR, art.63)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	174
9	Nominal amount of the instrument	274
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - amortised cost
11	Original date of issuance	23/10/2015

12	Perpetual or dated	at maturity
13	Original maturity date	23/10/2022
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	3.00%
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	senior
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

Section 3 - Capital requirements (art. 438 CRR)

Qualitative information

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

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

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

Measurements of risk exposures, carried out in both current and prospective terms, as well as under stressed conditions, make it possible to determine the internal capital needed to cover the nature and level of risks that may have a material impact on the Group.

The Group’s ability to continue operating by maintaining sound and robust financial conditions is regularly verified in the process of internal reporting on management performance and exposure to risks. The potential impacts on capital robustness of key managerial choices and initiatives, or any significant changes in strategies or in the external environment, are also previously assessed before making any decision.

The objectives and thresholds stated in the Risk Appetite Framework (RAF) for the capital indicators are taken as a point of reference to evaluate the adequacy of the Group's capital measures as determined in the ICAAP, both in current terms and under baseline and adverse scenarios, in line with the minimum regulatory requirements and with the additional supervisory constraints currently and prospectively in force.

Quantitative information

The following tables show the amounts of regulatory capital that are absorbed for credit and counterparty, market, operational and credit valuation adjustment (CVA) risks, as well as the levels reached by the supervisory capital ratios based on the Group's Common Equity Tier 1 Capital (Common equity Tier 1 ratio), Tier 1 Capital (Tier 1 ratio) and Total Own Funds (Total Capital ratio) at 30 June 2019, calculated pursuant to Basel 3 transitional ("phased-in") rules, compared with the equivalent figures reported at 31 December 2018.

CAPITAL ADEQUACY	30/06/2019		31/12/2018	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Credit and counterparty risk:	**15,001,037**	**1,200,083**	**20,102,100**	**1,608,168**
• ***Standardised approach***	***7,717,253***	***617,380***	***20,102,100***	***1,608,168***
• ***Internal rating based approach (Advanced IRB)***	***7,283,785***	***582,703***	**-**	**-**
Credit Valuation Adjustment (CVA) risk: standardised approach	**14,974**	**1,198**	**10,795**	**864**
Market risk: standardised approach	**179,899**	**14,392**	**235,336**	**18,827**
Position risk on debt instruments	33,616	2,689	26,787	2,143
Position risk on equity instruments	89,576	7,166	166,191	13,295
Particular approach for position risk on CIUs	56,707	4,537	40,599	3,248
Foreign-exchange risk	1	0	3	0
Commodity risk	-	-	1,757	141
Operational risk: standardised approach	**1,559,497**	**124,760**	**1,559,497**	**124,760**
TOTAL REQUIREMENTS	**16,755,407**	**1,340,433**	**21,907,728**	**1,752,618**

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

CREDIT AND COUNTERPARTY RISK: STANDARDISED APPROACH	30/06/2019		31/12/2018	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Total Credit and counterparty risk	**7,717,253**	**617,380**	**20,102,100**	**1,608,168**
Credit and counterparty risk – excl. securitisation positions	*7,505,393*	*600,431*	*19,867,933*	*1,589,435*
- Central governments or central banks	3,897	312	6,432	515
- Regional governments or local authorities	20,916	1,673	28,327	2,266
- Public sector entities	89,597	7,168	23,124	1,850
- Multilateral development banks	-	-	-	-
- International organizations	-	-	-	-
- Institutions	832,726	66,618	773,764	61,901
- Corporates	2,675,230	214,018	8,925,251	714,020
- Retail	305,944	24,476	2,359,637	188,771
- Secured by mortgages on immovable property	1,457,450	116,596	3,268,345	261,468
- Exposures in default	76,713	6,137	1,852,753	148,220
- Items associated with particular high risk	47,458	3,797	816,738	65,339
- Covered bonds	73,458	5,877	58,338	4,667
- Claims on institutions and corporates with a short-term credit assessment	-	-	-	-
- Collective investments undertakings (CIUs)	279,818	22,385	258,340	20,667
- Equity	596,840	47,747	615,699	49,256
- Other items	1,045,346	83,628	881,184	70,495
Securitisations - securitisation positions: total	*211,811*	*16,945*	*234,064*	*18,725*
Risk exposure amount for contributions to the default fund of central counterparties (CCP)	*49*	*4*	*103*	*8*

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

CREDIT AND COUNTERPARTY RISK: INTERNAL RATING BASED APPROACH (ADVANCED IRB)	30/06/2019		31/12/2018	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Total Credit and counterparty risk	**7,283,785**	**582,703**	**-**	**-**
Exposures to Corporates	*5,314,886*	*425,191*	-	-
- Corporates: SMEs	2,993,168	239,453	-	-
- Corporates: Other businesses	2,321,717	185,737	-	-
Retail exposures	*1,968,899*	*157,512*	-	-
- Retail - Secured by real estate: SMEs	399,190	31,935	-	-
- Retail - Secured by real estate: individuals	413,589	33,087	-	-
- Other Retail: SMEs	990,212	79,217	-	-
- Other Retail: individuals	141,946	11,356	-	-

- Other assets	23,962	1,917	-	-

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

CAPITAL RATIOS	30/06/2019	31/12/2018
Common equity Tier 1 ratio (CET1 ratio)	**15.50%**	**12.03%**
Tier 1 ratio	**15.56%**	**12.07%**
Total Capital ratio	**17.30%**	**13.61%**

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

The figures reported in the previous tables referring to 30 June 2019 correspond to those communicated to the Authorities in the context of consolidated supervisory reporting.

The Group's capital ratios as of the reference date benefit significantly from the authorisation to use the internal rating system released by the ECB on 27 May 2019, whereas the ratios at 31 December 2018 - shown for comparative purposes - still reflected the use of the Standardised Approach for weighting risk when calculating capital absorption for all exposure portfolios.

In addition to the increase in available capital already represented in Section 2, adoption of the Advanced IRB Approach for measuring capital requirements for credit risk to which the "Corporate" and "Retail" portfolios of Banca Popolare di Sondrio are exposed resulted in a substantial saving in the risk-weighted assets (RWAs), thanks to the application of internally estimated risk parameters combined with the supervisory formulas envisaged for the advanced IRB method instead of the previous standard weightings, only partly offset by higher absorption due to greater lending volumes granted by the Group during the half-year.

With regard to the contribution of other types of risk, it is worth noting a decline in market risk, attributable to the reduction of securities held for trading purposes (especially those with the highest capital burdens); on the other hand, capital requirement for operational risk remained stable compared with 31/12/2018 - as per regulatory provisions -, and so does the capital requirement for credit valuation adjustment (CVA) risk, insisting on specific transactions in over-the-counter (OTC) derivatives and counterparties.

Section 4 - Leverage (art. 451 CRR)

Qualitative information

Regulation (EU) no. 575/2013 ("CRR"), as partially amended by Delegated Regulation (EU) no. 2015/62, brought into effect from 1 January 2014 introducing the requirement for supervised entities to calculate a new Leverage ratio in order to limit the build-up of an excessive leverage, namely a particularly high level of indebtedness compared with Own Funds which can make a bank vulnerable. The indicator, which was implemented as part of the Basel 3 framework, is a simple backstop measure aimed at complementing the traditional risk-based capital requirements. The main objectives of its calculation and monitoring are to:

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

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

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

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

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

- Tier 1 Capital calculated using the “phased-in” rules, i.e. according to the *pro tempore* arrangements applicable during the so-called "transitional period" in which the Basel 3 criteria to calculate regulatory Own Funds have to be applied in gradually increasing proportions;

– Tier 1 Capital calculated according to the “fully-phased” rules, i.e. without applying both the exceptions to the full adoption of Basel 3 schemes envisaged by the transitional provisions and the grandfathering clauses for eligibility of capital instruments in Own Funds calculation.

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

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

Quantitative information

A summary of the key elements of the Group's Leverage ratio at 30 June 2019 is shown in the table below, both according to the Basel 3 “fully-loaded” rules and the “phased-in” criteria in force at the reference date, compared with the equivalent figures at 31 December 2018.

Capital and total exposures	**30/06/2019**	**31/12/2018**
Total Leverage ratio exposures - fully phased	46,286,119	45,173,719
Total Leverage ratio exposures - phased-in	46,286,119	45,197,919
Tier 1 capital - fully phased	2,602,201	2,611,093
Tier 1 capital - phased-in	2,606,597	2,644,738
Leverage ratio	**30/06/2019**	**31/12/2018**
Leverage ratio - fully phased	**5.62%**	**5.78%**
Leverage ratio - phased-in	**5.63%**	**5.85%**

Source: COREP - Leverage ratio calculation: Model C 47.00

The trend in the Leverage ratio during the half-year (-16 basis points when measured with the “fully-phased” rules, -22 basis points when measured with “phased-in” rules in force in 2019) has been affected by the joint impact of two factors: one with effect on the numerator (Tier 1 Capital), the other with effect on the denominator (Total exposures).

As already mentioned in the previous sections, the Tier 1 Capital - both in the "phased-in" and "fully-loaded" configuration - has been significantly affected by the first recognition, among the capital deductions, of the shortfall component related to the Group's transition, as at 30 June 2019, to the Advanced IRB Method for determining its capital requirements on credit risk exposures pertaining to the Parent Company's “Corporate” and “Retail” segments.

Moreover, the only Tier 1 Capital calculated under "phased-in" Basel 3 regime was burdened with an additional negative contribution, which also emerged as a consequence of the IRB system, following the reduction of the "sterilised" part of the loan loss adjustments following First Time Adoption (FTA) of IFRS 9 that resulted from the transitional arrangements for mitigating the impact of the new standard on prudential metrics, as applied in 2018 by the Group[5].

The observed change in the Leverage ratio during the first half of the year was also adversely impacted by an increase in the total exposures amount in the denominator, mainly due to an expansion of financing volumes with respect to the situation at the end of 2018.

The tables below summarise the main pieces of information about the Leverage ratio reported by the Group at 30 June 2019 and at 31 December 2018 respectively, as envisaged by article 451 of Regulation (EU) no. 575/2013 ("CRR"), prepared in accordance with the technical rules contained in the Implementing Regulation (EU) no. 2016/200 of 15 February 2016.

Table LRCom - Leverage ratio common disclosure

		30/06/2019	**31/12/2018**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	40,773,774	39,806,929
2	(Asset amounts deducted in determining Tier 1 capital)	-	-
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**40,773,774**	**39,806,929**
	Derivative exposures		
4	Replacement cost associated with all derivative transactions (net of eligible cash variation margin)	19,316	13,048
5	Add-on amounts for potential future exposures associated with all derivative transactions (mark-to-market method)	13,613	9,671
EU-5a	Exposure determined under original exposure method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deduction of receivables for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines from 4 to 10)**	**32,929**	**22,719**
	Securities financing transaction exposures		

5 See also Section 5 of this document.

12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,179,272	1,223,099
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	101,220	126,308
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with articles 429 ter, paragraph 4 and 222 of Regulation (EU) 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposures)	-	-
16	**Total securities financing transaction (SFT) exposures (sum of lines from 12 to 15a)**	**1,280,491**	**1,349,407**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	19,633,947	19,596,891
18	(Adjustments for conversion to credit equivalent amounts)	(15,435,022)	(15,578,028)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**4,198,925**	**4,018,863**
	(Exempted exposures in accordance with article 429, paras. 7 and 14, of Regulation (EU) 575/2013 (on- and off-balance sheet))		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with article 429, para. 7, of Regulation (EU) 575/2013 (on- and off-balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with article 429, para. 14, of Regulation (EU) 575/2013 (on- and off-balance sheet))	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	**2,606,597**	**2,644,738**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**46,286,119**	**45,197,919**
	Leverage ratio		
22	**Leverage ratio**	**5.63%**	**5.85%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional arrangements	Transitional arrangements
EU-24	Amount of derecognised fiduciary items in accordance with article 429, paragraph 11, of Regulation (EU) 575/2013	-	-

Source: COREP - Calculation of the leverage ratio: Model C 47.00

Table LRSpl - Split-up of on-balance sheet exposures (excl. derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures	30/06/2019	31/12/2018
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**40,773,774**	**39,806,929**
EU-2	Trading book exposures	160,780	219,211
EU-3	Banking book exposures, of which:	40,612,993	39,587,718

EU-4	*Covered bonds*	*270,352*	*168,868*
EU-5	*Exposures treated as sovereigns*	*11,059,505*	*11,148,372*
EU-6	*Exposures to regional governments, multilateral development banks (MDB), international organisations and public sector entities (PSE) not treated as sovereigns*	*324,005*	*92,583*
EU-7	*Institutions*	*2,422,639*	*2,199,310*
EU-8	*Secured by mortgages on immovable properties*	*9,468,804*	*8,502,877*
EU-9	*Retail exposures*	*3,294,024*	*3,598,104*
EU-10	*Corporate*	*9,273,286*	*9,135,280*
EU-11	*Exposures in default*	*1,800,551*	*1,678,612*
EU-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*	*2,699,826*	*3,063,711*

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

Table LRSum - Summary reconciliation of accounting assets and leverage ratio exposures

		30/06/2019	31/12/2018
1	**Total assets as per published financial statements**	**42,099,862**	**41,128,185**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(2,879)	(1,415)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with article 429, paragraph 13, of Regulation (EU) 575/2013)	-	-
4	Adjustments for derivative financial instruments	13,613	9,671
5	Adjustments for securities financing transactions (SFTs)	101,220	126,308
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	4,198,925	4,018,863
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with article 429, paragraph 7, of Regulation (EU) 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 14, of Regulation (EU) 575/2013)	-	-
7	Other adjustments	(124,621)	(83,694)
8	**Leverage ratio total exposure measure**	**46,286,119**	**45,197,919**

Source: COREP - Leverage ratio calculation: Model C 47.00

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

Qualitative information

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

These amendments are applicable from 1/1/2018 to 31/12/2022 and allow intermediaries to include temporarily in the calculation of their Common Equity Tier 1 Capital (CET1) an additional amount in order to "neutralise" the potentially significant impact of the sudden increase in expected credit loss provisions on financial instruments that would probably result from the immediate adoption of the new accounting standards.

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

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

Institutions that decided to adhere to the IFRS 9 transitional arrangements are asked to add up this compensatory amount to their CET1 Capital with the application of decreasing percentages over time, from 95% in 2018 to 25% in 2022, until complete phase-out from 1/1/2023.

The additional loss provisions included as a positive element of CET1 get sterilised when calculating prudential ratios by applying a so-called "scaling factor" which has the effect of increasing the exposure value by compensating the impairment losses that, under the Standardised Approach for credit risk, are deducted from the exposure amount used to determine the risk-weighted assets (RWAs). This would ensure that the institutions applying the IFRS 9 transitional arrangements would not benefit from both an increase in its Common Equity Tier 1 Capital due to the said compensatory adjustments as well as a reduced risk exposure amount.

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

Given the above, the Banca Popolare di Sondrio Group has chosen to make use of this transitional regime on an "integral" basis, i.e. with reference to the additional provisions for expected credit losses on performing and credit-impaired financial instruments observed at the time of FTA of IFRS 9 (the "static" component), as well as for the increase in impairment losses recorded excluding credit-impaired instruments (only positions in Stage 1 and Stage 2) at each reference date following FTA (the "dynamic" component). The decision of the Group was formally communicated to the European Central Bank within the time allowed.

Quantitative information

Below we provide information on the Group's regulatory Own Funds, RWA-based capital ratios and Leverage ratio at 30 June 2019 and 31 December 2018 - both calculated by applying the IFRS 9 transitional arrangements on an "integral" basis - compared with the corresponding values calculated without the application of such transitional provisions, as provided for by the EBA Guidelines issued on 12 January 2018.

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

		30/06/2019	31/12/2018
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	2,597,015	2,635,696
2	Common Equity Tier 1 (CET1) capital as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	2,592,619	2,613,198
3	Tier 1 capital	2,606,597	2,644,738
4	Tier 1 capital as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	2,602,201	2,622,240
5	Total capital	2,898,169	2,980,861
6	Total capital as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	2,893,773	2,958,363
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	16,755,407	21,907,728
8	Total risk-weighted assets as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	16,754,890	21,880,281
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.50%	12.03%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	15.47%	11.94%

11	Tier 1 (as a percentage of risk exposure amount)	15.56%	12.07%
12	Tier 1 (as a percentage of risk exposure amount) as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	15.53%	11.98%
13	Total capital (as a percentage of risk exposure amount)	17.30%	13.61%
14	Total capital (as a percentage of risk exposure amount) as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	17.27%	13.52%
	Leverage ratio		
15	Leverage ratio total exposure measure	46,286,119	45,197,919
16	Leverage ratio	5.63%	5.85%
17	Leverage ratio as if the transitional arrangements for IFRS 9 or analogous ECLs had not been applied	5.62%	5.80%

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

An analysis of the data reported in the table demonstrates how the impacts on the capital adequacy of the Group deriving from immediate and full recognition of the new accounting standards would remain barely material. Moreover, the already small deviations recorded at 31 December 2018 between the prudential ratios calculated with the transitional regime for the gradual implementation of IFRS 9 and the same values in the event that the transitional arrangements would not be applied have further reduced at 30 June 2019.

This reduction is largely attributable to the effects of the authorisation to use the internal rating system (Advanced IRB Method) obtained by the Group for measuring capital requirements on credit risk: in compliance with the provisions of Regulation (EU) no. 2017/2395, the amount of additional loan loss provisions that emerged following the first introduction of IFRS 9 has been restated separately by type of prudential treatment (AIRB/Standardised Approach) to which each risk position was subjected. Given that most of the larger IFRS 9-related credit adjustments pertained to exposures to counterparties of "Retail" and "Corporate" segments, i.e. falling within the first validation scope of the AIRB system, they no longer had the possibility provided by the IFRS 9 transitional regime to be counted as positive CET1 elements, as they have effectively been "neutralised" by expected losses estimated with internal models, giving rise to the shortfall item.

The additional expected credit loss provisions that, at 30 June 2019, - net of tax effects and calculated at 85% of their actual value based on the progressive rules currently in force - have contributed to the quantification of the compensatory amount included in CET1 Capital are therefore entirely attributable to exposures treated according to the regulatory Standardised Approach for credit risk measurement.

Section 6 - Credit risk: information on the portfolios subject to the IRB method (art. 452 CRR)

Qualitative information

ECB authorisation and roll-out plan for internal models

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

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

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

- PD (Probability of Default), the estimated probability that a borrower will not be able to meet his credit commitments, thus becoming insolvent;
- LGD (Loss Given Default), the estimated loss rate associated with a position at the time of default of a borrower;
- EAD (Exposure at Default), an estimate of a borrower's expected credit exposure at the time of default[6].

General structure, uses and control/review of internal rating systems

Structure of the rating models

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

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

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

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

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

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

The LGD calculation models are estimated starting from the discounted cash flows originated by the credit recovery activities carried out by the bank on its past non-performing exposures ("workout LGD approach"), from which the “LGS” component[7] - relating to the loss rate of non-performing positions - is then derived. For exposures other than bad loans (“Sofferenze”), an adjustment factor, known as "Danger rate", is applied with the aim of quantifying the probability that a counterparty might shift to bad loans and, with it, the potential evolution of its exposure in the various stages of credit deterioration that precede a legal action to recover the impaired loan. This adjustment factor is differently derived depending on the administrative status in which each credit position is classified, distinguishing between performing, past due and unlikely-to-pay loans.

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

The models for calculating the EAD provide for estimates of so-called "credit conversion factors" (CCF) to be applied to loan positions with undrawn margins[8] compared with the credit facility

[7] Acronym of "Loss Given Sofferenza"

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

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

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

Comparison between internal and ECAI ratings

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

In following table we provide a reconciliation between internal and ECAI ratings – with specific regard to the risk classification commonly adopted by Moody's – for the "Corporate" internal models and, within the "Retail" sector, for the "Small Business" segment[9] (where the reconciliation is not unequivocal, a corresponding range is shown).

Risk	Credit-worthiness	Corporate	Retail – Small Business
Low	*Excellent*	Investment grade	Investment grade
	Good	Investment grade	Investment / Speculative grade
Medium	*Medium*	Speculative grade	Speculative grade
High	*Uncertain*	Speculative grade	Speculative grade
	Bad	Speculative grade	Speculative grade
	Very Bad	Speculative grade	Speculative grade

Uses of the rating system

The internal rating system represents a fundamental element of the bank's credit processes and procedures. It is fully integrated with them in accordance with regulatory requirements.

IRB-related risk metrics are specifically used in the following areas:

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

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

- Credit policies
- Impairment.

Granting of credit and determination of the decision-making powers

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

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

Credit monitoring

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

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

Asset quality targets

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

Internal reporting

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

Two reporting tools for risk-based analyses around the composition of the loan portfolio, updated on a monthly basis, are also addressed to the commercial network.

Risk-adjusted pricing

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

This risk-based measure of "value creation" can be calculated by operators both *ex ante* (i.e. during preliminary investigation of the loan application, prior to credit disbursement) and *ex post* (i.e. to monitor the ongoing risk-return profile of the credit exposures, after their granting) taking into account the "expected credit loss" amount quantified for each position based on the customers' risk parameters estimated by the rating system.

ICAAP and Risk Appetite Framework (RAF)

Within the ICAAP (*Internal Capital Adequacy Assessment Process*), the amount of capital needs related to risks to which the Groups' credit portfolio is exposed under current and forward-looking scenarios is assessed to evaluate capital resilience, even under stressed conditions. When estimating the impacts on capital position in the event of adverse economic situations, such analysis is grounded on the adoption of stressed internally calculated credit risk parameters; these, relating to "Retail" and "Corporate" counterparties, are derived from regulatory IRB metrics calculated through the application of so-called "satellite models", which provide values for credit risk factors that are conditioned by the macro-economic scenarios used by the bank.

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

Credit policies

Credit risk parameters estimated by internal models also take on a great deal of importance in the definition of the bank's lending policies, providing operational guidelines for the distribution network with a view to shaping the loan portfolio by drivers such as customers' segments, economic sectors and geographical areas.

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

Impairment

The lending portfolio is periodically subjected to impairment adjustments by applying the accounting concept of "Expected Credit Losses" (ECL), with the aim of identifying any losses in the economic value of the positions. The type of valuation carried out can be of a collective or analytical nature, depending on the administrative status of the counterparty and the size of the exposure. The process of determining impairment provisions subject to collective assessment relates to credit exposures classified as performing or past due or "automatic unlikely-to-pay loans"[10], and - in accordance with IFRS 9 - requires methods for calculating expected losses over the 12 months following the relevant accounting date (for Stage 1 positions) or throughout the entire residual lifetime of the exposures (for Stage 2 positions). Analytical assessment, on the other hand, is carried out for unlikely-to-pay or bad loans, unless they have a negligible amount: in fact, for the latter the credit risk adjustments are calculated by applying standard write-down coefficients based on specific "clusterisations"[11].

In the impairment process, IRB-based parameters (PD, LGD, EAD) are appropriately adjusted with the intention of satisfying the requirements indicated by the IFRS 9 accounting principles, specifically modelling the "point-in-time", "forward-looking" and "scenario-dependent" components; in particular, the parameters of PD and Danger Rate for LGD are recalibrated in a short-term perspective. To this end, specific econometric models ("satellite models") have been set up to define the possible evolutionary dynamics of the customers' credit risk factors in correspondence with different macro-economic scenarios.

Controls over and review of rating systems

The degree of reliability of the internal models adopted by the Group is monitored periodically through qualitative and quantitative controls aimed at verifying the performance and maintenance of the original methodological features, with particular regard to the aspects of calibration and stability of the models and their dynamic characteristics.

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

The Internal Audit Department, as an independent audit function, also reviews internal rating systems at least once a year, ensuring that they function properly (third-level controls), in compliance with the provisions of Regulation (EU) no. 575/2013 ("CRR"). Specifically, the Department assesses the functionality of the overall control framework over the rating system by verifying the adequacy and completeness of the activities carried out by the competent functions and the consistency and merits of the ratification results, as well as the ongoing compliance of the internal rating-based (IRB) system with applicable regulatory requirements.

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

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

Description of rating systems

Risk segmentation

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

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

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

Group	Internal segment
Retail	Individuals
	Family Business
	Small Business
	Retail non-lucrative institutions
Corporate	SMEs
	Corporate non-lucrative institutions
	Large corporate
	Public sector companies
	Non-resident, non-financial companies
Other segments	Other intermediaries and financial businesses
	Banks and stockbrokers
	Governments
	Public administrations (not Governments)
	Other[12]

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

Regulatory segment	Internal segment
Central governments and central banks Multilateral development banks weighted at 0% International organisations weighted at 0%	Governments
Public Sector Entities Local authorities	Public administrations (not Governments)
Institutions	Other intermediaries and financial businesses Banks and stockbrokers
Individuals	Individuals
Small and medium-sized enterprises - Retail	Family business

[12] This aggregate includes three residual classes.

	Small Business Retail non-lucrative institutions
Small and medium-sized enterprises - Corporate	SMEs
Other corporate	Large companies Public sector companies Non-resident, non-financial companies Corporate non-lucrative institutions

PD models

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

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

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

The "acceptance model"[13] follows the general scheme for determining the counterparty rating envisaged in the “internal behavioural model” calculation, except for the absence of the "Internal Performance" module and a different way of integrating components related to information acquired from external sources.

The derived PD values are then recalibrated to align the average probability of default calculated on the estimate sample to the population’s reference default rate (acting as an "anchor point"). The PD parameters, broken-down into specific ranges of values, therefore determine the rating classes assigned to borrowers.

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

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

Rating assignment process

The process by which a rating is assigned to each counterparty included in the segments for which internal models have been developed consists of a series of activities.

The branch manager in charge of the credit assignment is first required to gather a set of quantitative and/or qualitative information about the applicant (including, where available, the financial statements and the qualitative questionnaire, that is aimed to integrate the statistical components of the models) needed to trigger the automatic rating calculation process; to these information, any other significant behavioural or trend-based - internal and external - indications are added. The rating thus determined by the system can only be changed for "Corporate" counterparties, via an "expert" intervention by the operators, through an “override” mechanism, which requires confirmation or refusal by the central rating desk unit before being applied.

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

In line with supervisory regulations, the assignment of the credit rating automatically determined by the system is also integrated with a suitable concept of rating, internally known as "validated rating", implying an “expert” assessment before it can be used for operational purposes. For each new loan application or in case of review/renewal of an existing credit, the "validation" by the competent manager takes place by accepting the rating elaborated by the system; alternatively, when allowed, the manager can propose an exception to it.

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

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

LGD models

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

Model	Internal segment
Companies	Small Business
	Retail non-lucrative institutions
	SMEs
	Corporate non-lucrative institutions
	Large companies
	Non-resident, non-financial companies
	Public sector companies
Households	Individuals
	Family business

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

- an *LGS* ("Loss Given Sofferenza") component, relating to the estimate of possible recoveries and losses that might occur if a credit exposure drifts to bad loans ("Sofferenze");
- a *Danger Rate* component, a coefficient that, for exposures other than bad loans, estimates the probability to be reclassified as bad loans[14] as well as the consequent evolution of the exposure following the reclassification.

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

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

No override mechanisms are allowed for the calculated LGD values.

EAD models

The EAD models relating to "Retail" counterparties, authorised for regulatory purposes by the Supervisory Authority, have been estimated on data samples including "Individuals", "Family Business", "Small Business" and " Non-Lucrative Institutions (Retail)" internal segments, whose temporal depth is representative of different phases of the economic cycle.

[14] This model component is relevant for counterparties classified in status other than "bad loans"; for the latter, the Danger Rate coefficient can only be equal to 1.

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

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

Among the relevant factors considered in the EAD models, there are data relating to each counterparty and existing credit products offered. The EAD calculation is updated monthly.

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

Quantitative information

Amounts of Groups' exposures by regulatory portfolio (Advanced IRB Approach)

Regulatory portfolio	30/06/2019					
	Nominal exposure				EAD	Credit risk adjust-ments
	Total	*of which: exposures in the financial statements subject to credit risk*	*of which: off-balance sheet exposures subject to credit risk*	*of which: exposures subject to counterparty risk*		
Exposures to Corporates	*22,469,992*	*10,593,594*	*11,856,975*	*19,422*	*12,418,379*	*1,337,354*
- Corporates: SMEs	11,099,896	6,787,628	4,308,743	3,525	7,393,635	800,577
- Corporates: Other businesses	11,370,096	3,805,966	7,548,232	15,898	5,024,744	536,776
Retail exposures	*11,527,437*	*8,400,246*	*3,126,081*	*1,110*	*10,645,160*	*830,840*
- Retail - Secured by real estate: SMEs	1,824,858	1,779,328	45,530	-	1,821,917	102,110
- Retail - Secured by real estate: individuals	2,966,782	2,935,184	31,598	-	2,972,116	117,701
- Other Retail: SMEs	5,271,877	2,759,183	2,511,981	714	4,359,379	450,260
- Other Retail: individuals	1,237,408	845,909	391,103	396	1,209,709	158,725
- Other assets	226,512	80,643	145,869	-	282,039	2,044
TOTAL CREDIT AND COUNTERPARTY RISK (ADVANCED IRB METHOD)	**33,997,428**	**18,993,841**	**14,983,056**	**20,532**	**23,063,539**	**2,168,194**

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

NOTE: The amounts shown in the table do not include exposures which, even if they are formally part of the first AIRB validation scope, still fall within the treatment envisaged by the Standardised Approach due to the absence of internally estimated risk parameters (PD or LGD). At 30 June 2019, they represent approximately 5% of the total exposures falling within the AIRB scope.

Key:

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

Distribution of Group’s exposures by regulatory portfolio and PD class (Advanced IRB Approach)

		30/06/2019				
Regulatory portfolio	***PD classes***	***EAD***	***Average weighting factor (%)***	***RWA***	***PD weighted average (%)***	***LGD weighted average (%)***
Exposure to Corporates						
- Corporates: SMEs	from 0.00 to <0.15	426,871	14.48%	61,814	0.12%	27.75%
	from 0.15 to <0.25	590,056	17.65%	104,160	0.16%	26.20%
	from 0.25 to <0.50	1,390,408	28.59%	397,525	0.40%	24.44%
	from 0.50 to <0.75	15,295	36.98%	5,656	0.73%	22.60%
	from 0.75 to <2.50	1,553,544	44.04%	684,190	1.39%	22.58%
	from 2.50 to <10.00	1,193,027	57.88%	690,532	5.04%	20.89%
	from 10.00 to ≤100.00	2,224,433	47.17%	1,049,292	26.12%	41.09%
	Total	***7,393,635***	***40.48%***	***2,993,168***	***4.54%***	***28.81%***
- Corporates: Other businesses	from 0.00 to <0.15	583,950	18.76%	109,572	0.12%	29.25%
	from 0.15 to <0.25	602,544	22.76%	137,128	0.16%	29.93%
	from 0.25 to <0.50	1,377,643	38.72%	533,362	0.41%	29.26%
	from 0.50 to <0.75	1,220	30.64%	374	0.73%	18.84%
	from 0.75 to <2.50	927,800	66.88%	620,530	1.43%	29.60%
	from 2.50 to <10.00	690,055	89.86%	620,108	5.54%	25.27%
	from 10.00 to ≤100.00	841,531	35.73%	300,642	29.45%	64.13%
	Total	***5,024,744***	***46.21%***	***2,321,717***	***1.66%***	***34.69%***

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

Regulatory portfolio	*PD classes*	*EAD*	*Average weighting factor (%)*	*RWA*	*PD weighted average (%)*	*LGD weighted average (%)*	*Average CCF (%)*
Retail exposures							
- Retail - Secured by real estate	from 0.00 to <0.15	64,194	2.02%	1,300	0.10%	9.91%	87.24%
	from 0.15 to <0.25	263,384	2.42%	6,381	0.18%	7.64%	81.05%
	from 0.25 to <0.50	259,733	4.43%	11,513	0.32%	9.49%	60.04%
	from 0.50 to <0.75	825,027	5.95%	49,081	0.57%	6.72%	93.08%
	from 0.75 to <2.50	1,181,404	11.27%	133,198	1.32%	7.85%	85.30%
	from 2.50 to <10.00	713,187	25.27%	180,243	4.66%	8.78%	95.87%
	from 10.00 to ≤100.00	1,487,105	28.99%	431,062	25.34%	19.01%	64.25%
	Total	***4,794,033***	***16.95%***	***812,779***	***6.85%***	***11.36%***	***82.40%***
- Other Retail	from 0.00 to <0.15	387,584	6.36%	24,647	0.11%	29.93%	66.20%
	from 0.15 to <0.25	298,268	6.44%	19,216	0.17%	21.49%	67.56%
	from 0.25 to <0.50	643,656	12.88%	82,872	0.35%	27.33%	68.70%
	from 0.50 to <0.75	450,697	12.92%	58,217	0.62%	17.19%	78.75%
	from 0.75 to <2.50	1,068,450	20.83%	222,544	1.49%	21.33%	60.75%
	from 2.50 to <10.00	979,486	23.57%	230,821	4.91%	19.05%	63.91%
	from 10.00 to ≤100.00	1,740,947	28.37%	493,841	27.65%	44.98%	53.92%
	Total	***5,569,088***	***20.33%***	***1,132,158***	***6.32%***	***29.29%***	***65.10%***
- Other assets	from 0.00 to <0.15	53,449	0.65%	347	0.06%	15.42%	122.65%
	from 0.15 to <0.25	35,486	1.53%	543	0.17%	15.46%	131.34%
	from 0.25 to <0.50	-	-	-	-	-	-
	from 0.50 to <0.75	89,029	3.93%	3,500	0.55%	15.49%	136.43%
	from 0.75 to <2.50	43,190	7.52%	3,248	1.27%	15.51%	134.23%
	from 2.50 to <10.00	29,966	17.50%	5,244	4.21%	15.50%	145.72%
	from 10.00 to ≤100.00	30,919	35.83%	11,080	23.33%	18.12%	134.80%
	Total	***282,039***	***8.50%***	***23,962***	***3.11%***	***15.77%***	***131.76%***

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

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

Section 7 - Liquidity risk (art. 435 CRR)

Qualitative information

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

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

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

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

The Group also makes use of funds granted by the European Central Bank through targeted longer-term refinancing operations (T-LTRO) for a total of € 4.6 billion at 30 June 2019, of which € 1.1 billion maturing in June 2020 and € 3.5 billion maturing in March 2021.

Quantitative information

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

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

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

Figures in millions of euro

		Table of weighted amounts			
	Reference quarter:	**Jun-19**	**Mar-19**	**Dec-18**	**Sep-18**
	Number of observations used in the average calculation:	12	12	12	12
21	**LIQUIDITY RESERVE**	7,818	8,233	8,421	8,661
22	**TOTAL NET CASH OUTFLOWS**	4,922	5,491	5,692	5,865
23	**LIQUIDITY COVERAGE RATIO (%)**	162%	152%	149%	148%

Source: COREP - Liquidity: Models C 76.00

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

The figures reported in the table above show an increasing pattern in the average level of the Group's LCR, which over the entire period far exceeds the minimum regulatory requirement (100%). The high-quality liquid assets ("HQLA"), representing the liquidity reserves that can be computed in the numerator of the coefficient, remain predominantly made up of instruments issued by eligible sovereign entities classified in the "EHQLA" category (Level 1)[15], recognised as being of extremely high liquidity and credit quality pursuant to the Commission Delegated Regulation (EU) no. 2015/61 of 10 October 2014. Net cash outflows are determined by applying the liquidity outflow and inflow adjustment factors envisaged by the regulatory provisions to all the demand liabilities and assets or those with maturity within 30 days, so as to incorporate in the calculation of the LCR coefficient severe stress effects of both a systemic and idiosyncratic nature.

More generally, during the reporting period, the Group's liquidity profile has proved to be solid, both in the short-term ("operational liquidity") and in the longer term ("structural liquidity"), with no breaches in the risk limits established internally and, where present, in the regulatory minimum levels (for LCR and NSFR indicators). Furthermore last April, at the end of the annual ILAAP (*Internal Liquidity Adequacy Assessment Process*) reporting, the Board of Directors of the Parent Company certified, with reference to the situation at 31 December 2018, the adequacy of the overall liquidity position of the Group and of the risk governance and management systems associated with it, from an actual as well as a perspective standpoint.

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

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

The undersigned Maurizio Bertoletti, as Manager responsible for preparing the Company's accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of article 154-bis, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, certifies that the accounting information contained in this Document agrees with the underlying accounting entries, records and documentation.

Sondrio, 27 August 2019

Signed Maurizio Bertoletti

Manager responsible for preparing the
Company's accounting documents

Glossary

Common Equity Tier 1 (CET1) ratio

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

Amortised cost

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

Credit Bureau

External database that provides updated credit information of loan applicants with the aim of evaluating their creditworthiness and reliability.

EAD – *Exposure At Default*

Expected exposure at the time of insolvency of the counterparty of a risk position.

EBA – *European Banking Authority*

European Banking Authority. It is a regulatory body of the European Union, based in London, established by Regulation 1093/2010/EU to replace the Committee of European Banking Supervisors (in abbreviated form, "CEBS").

ECAI – *External Credit Assessment Institutions*

External agencies providing credit assessments recognised by the Supervisory Authorities, which are specialised in rating services to financial institutions; the latter are allowed to use them for measuring their regulatory capital requirements for credit risk within the Standardised Approach.

Fair value

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

FVOCI – *Fair Value through Other Comprehensive Income*

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

FVTPL – *Fair Value Through Profit or Loss*

Financial instrument (asset or liability) measured at fair value with changes recognised in the income statement. The cases envisaged in IFRS 9 for classification as FVTPL are: i) holding the instrument for trading purposes; ii) designation at fair value recorded in the income statement ("Through Profit or Loss" or TPL) at the time of initial recognition, iii) mandatory measurement at fair value for those instruments that have contractual cash flows that are incompatible with other accounting classifications envisaged by the standard, or in the event of failure to pass the SPPI Test.

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

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

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

IFRS 9 (Financial instruments)
International accounting standard which, from 1 January 2018, replaced IAS 39 "Financial Instruments: Recognition and Measurement". It applies to all financial instruments that can be classified as assets and liabilities in the balance sheet, having regard to the classification and measurement criteria and the methods for determining impairment adjustments.

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

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

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

LCR – *Liquidity Coverage Ratio (or Liquidity Coverage Requirement)*
Short-term liquidity coverage indicator determined according to Part 6 of Regulation (EU) no. 575/2013 of 26 June 2013 ("CRR") referring to the minimum proportion of highly liquid assets to be held by financial institutions to ensure their

ongoing ability to meet short-term obligations. The LCR coefficient aims to ensure that intermediaries hold an amount of high-quality liquid reserves, readily convertible into cash, sufficient to cover liquidity outflows for a period of at least 30 days, even in a scenario of particularly severe liquidity stress. The indicator is calculated as the ratio between the stock of high-quality liquid assets (HQLA) and total net cash outflows scheduled in the 30 calendar days following the observation date, determined under particularly acute stress assumptions. The parameter must always remain at or above the minimum level of 100%.

Leverage ratio

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

LGD – *Loss Given Default*

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

NSFR – *Net Stable Funding Ratio (or Net Stable Funding Requirement)*

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

OTC – *Over The Counter*

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

PD – *Probability of Default*

Probability that a counterparty becomes insolvent within a given time horizon.

Expected Credit Loss

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

Subordinated bond/loan

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

RAF – *Risk Appetite Framework*

Represents the frame of reference - including policies, processes, controls and systems – through which the risk appetite of a financial institution is established, communicated and monitored, consistently with its risk capacity and business model. It includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF aligns with the institution’s strategy.

Rating

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

RWA – *Risk-Weighted Assets*

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

SREP – *Supervisory Review and Evaluation Process*

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

Tier 1 ratio

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

Total Capital Ratio

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