



Banca Popolare di Sondrio

Società cooperativa per azioni - fondata nel 1871
Sede sociale e direzione generale: I - 23100 Sondrio So - Piazza Garibaldi 16
Iscritta al Registro delle Imprese di Sondrio al n. 00053810149
Iscritta all'Albo delle Banche al n. 842
Capogruppo del Gruppo bancario Banca Popolare di Sondrio, iscritto all'Albo dei Gruppi bancari al n. 5696.0
Iscritta all'Albo delle Società Cooperative al n. A160536
Aderente al Fondo Interbancario di Tutela dei Depositi
Codice fiscale e Partita IVA: 00053810149
Capitale Sociale €1.360.157.331 - Riserve €947.325.264
(dati approvati dall'Assemblea dei soci del 29/4/2017)

Press release

Board of Directors of August 9, 2017: approval of the half-yearly consolidated report as at June 30, 2017.

IN SEARCH OF NEW SPACES FOR THE GROWTH AND THE DIVERSIFICATION OF THE BUSINESS MODEL

- Net profit of € 56.332 million, significantly up, plus 21.41%, compared to the same period of last year.
The net result would have amounted to around € 76 million (+63.56%) without considering the extraordinary contributions related to the stabilization of the banking system equal to, in the first semester of 2017, € 29.216 million, gross of the fiscal component, which were added to the ordinary ones having the same objective.
- Direct deposits totaled € 29,740 million, minus 3.86%.
- Net customer loans stood at € 25,712 million, plus 1.57%.
- New loans to households and businesses exceeded € 2 billion.
- Internationalization: continuous and increased effort to support companies which look abroad for new business opportunities.
- Reduction of new inflows into non-performing loans in the 2nd quarter of 2017 confirmed.
- Net adjustments to loans for impairment down in the period 24.19%.
- The cost of credit dropped to 0.74% (from 0.99%).

- In further increase, compared to the already significant levels of the year-end values, the degree of coverage of non-performing exposures as a whole which reached 47.53% (from 46.17%) and also of the bad loans component, now at 64.46% (from 63.43%).
- Good levels of non-performing exposures ratios: net bad loans relative to net total customer loans reached 2.95% (from 3.03% of the end of 2016). Total gross non-performing exposures relative to total gross customer loans stood at 15.62% (from 16.10% of the end of 2016).
- Capital ratios largely above the regulatory requirements:
 - CET1 Ratio stood at 11.11%;
 - Total Capital Ratio stood at 13.36%.
- Texas ratio: 88.36%, lower than the average level of the competitors.
- Leverage Ratio of 5.82%.
- Human resources: 79 new hires.
- Capability of growth by diversifying activities.

The following is a summary table of the most significant data and the information on the composition of the banking group:

Values in € million.

	30/06/2017	30/06/2016	Change (%)
Net interest income	239	247	-3.31
Total income	443	418	+5.98
Net financial income	319	292	+8.98
Pre-tax from continuing operations	87	65	+34.33
Net profit	56	46	+21.41

	30/06/2017	31/12/2016	Change (%)
Customer deposits	29,740	30,934	-3.86
Indirect customer deposits	28,907	28,409	+1.75
Insurance deposits	1,304	1,266	+2.99
Total customer deposits	59,951	60,609	-1.09
Cash loans to customers	25,712	25,313	+1.57

	30/06/2017	30/06/2016	Change(%)
Customer deposits	29,740	29,144	+2.05
Indirect customer deposits	28,907	26,799	+7.86
Insurance deposits	1,304	1,248	+4.46
Total customer deposits	59,950	57,191	+4.82
Cash loans to customers	25,712	24,706	+4.07

Composition of the banking Group:

- Banca Popolare di Sondrio, cooperative joint-stock company (parent company);
- Banca Popolare di Sondrio (SUISSE) SA (100% owned subsidiary);
- Factorit spa (60,5% owned subsidiary);
- Sinergia Seconda srl (100% owned instrumental company);
- Popso Covered Bond srl (60% owned)

Today, the Board of Directors of Banca Popolare di Sondrio, cooperative joint stock company, has reviewed and approved the consolidated half-yearly financial report as at June 30, 2017.

Consolidated net profit for the period amounted to € 56.332 million, up 21.41%, compared to June 30, 2016. A result made possible also by the consolidation of the current economic recovery, which is reflected in the quality of credit, as well as by the more favorable situation of the financial markets and despite the significant ordinary and extraordinary costs related to the stabilization of the banking system which weighed on the income statement for € 43.2 million, gross of the fiscal effect.

Direct deposits stood at € 29,740 million, down 3.86% on 31 December 2016, plus 2.05% on an annual basis. **Indirect deposits** at market values amounted to € 28,907, million, up 1.75% on December 31, 2016, while the **insurance deposits** amounted to € 1,304 million, up 2.99% on December 31, 2016. **Total customer deposits** stood therefore at € 59,951 million, minus 1.09%.

The habitual activity to support businesses and households has continued. In particular, in the field of **foreign activities**, operations on behalf of customers - both in the goods and in the services sector - showed interesting volumes with satisfactory earnings. Moreover, through the proposal of numerous and diversified initiatives, it has been further strengthened the support to companies that in different ways seek new business opportunities abroad. A particular effort has been made in the organization of seminars on various foreign trade issues by using both the internal resources of the International Department and also the support of external partners and consultants.

Loans to customers totaled € 25,712 million, up 1.57% from the end of 2016 and 4.07% on an annual basis. **Net non-performing exposures** amounted to € 2,289 million, down 3.9%, accounting for 8.90% of total loans compared to 9.41% at the end of 2016, with a 47.53% coverage, up from 46.17% as at 31 December 2016. Among the non-performing exposures, **net bad loans** amounted to € 758 million, minus 1.23%, while the percentage on the total customer loans decreases to 2.95%, compared to 3.03% on 31 December, 2016. The level of coverage of bad loans stood at 64.46% compared to 63.43% at December 31, 2016. This level of coverage is confirmed among the highest at system level. Unlikely to pay exposures amounted to € 1,320 million, minus 0.18%, with a coverage rate of 33.22%, while past due loans and/or overdraft exposures amounted to € 211 million, minus 27.77%.

Financial assets, represented by property and derivative securities, amounted to € 11,570 million, plus 46.88% on 31 December 2016, an increase also related to the abundant level of liquidity enjoyed by the Group in the period. Equity investments totaled € 208 million, minus 0.6 million, a decrease substantially attributable to the effect of net equity devaluations.

As of June 30, 2017, the short-term **liquidity** indicators (LCR - Liquidity Coverage Ratio) and medium to long term (NSFR - Net Stable Funding Ratio) stood at values higher than the minimum requirements for 2017 (80%) and for 2019 (100%).

With regard to the components of the consolidated income statement, compared with the results as of June 30, 2016, the **net interest income** stood at € 238.819 million, minus 3.31%.

Net fee and commission income amounted to € 148.378 million, plus 3.62%.

The result of securities and foreign exchange transactions is positive for € 50.979 million, plus 136.08%. This result, as mentioned above, reflects a more favorable situation on the financial markets than in the same period of last year.

The **total income** is € 442.737 million, plus 5.98%.

Net impairment losses on loans and receivables, available for sale financial assets and other financial transactions amounted to € 124.167 million, slightly down from the € 125.417 million of the same period of last year and showing a diverging performance in the components. Net impairment losses on loans and receivables decreased to € 93.895 million from € 123.856 million, minus 24.19%, following the usual very conservative approach of the internal policy. Consequently, the cost of credit showed a significant improvement standing at 0.74%, down from 1.00% as at June 30, 2016 and 0.99% as at December 31, 2016. The write-off of the available for sale financial assets increased from € 2.273 million to € 29.900 million, of which a significant € 26.022 million are related to the devaluation in the shares held by the Parent Company in the Atlante Fund whereas that on the other financial operations was € 0.372 million.

Net financial income and insurance income amounted to € 318.570 million, plus 8.98%.

The **operating costs**, deriving from the sum of administrative expenses, provisions, value adjustments on tangible and intangible assets, plus the balance between "other net operating income", totaled € 239.456 million, plus 2.22%. The **administrative expenditures** component, for which a reclassification was made for the provision of employees retirement benefits, which are reflected in the other income / expenses component, amounted to € 256.43 million, plus 1.70% of which € 116.966 million, plus 2%, related to personnel expenses, and € 139.464 million, plus 1.45%, related to other administrative expenses; the latter include the contributions paid or expected to be paid to the Resolution Fund and the Deposit Guarantee (FITD) fund of € 13.991 million. The component other operating expenses/income amounted to € 32.085

million, minus 7.21%, while value adjustments to fixed assets amounted to € 15.787 million, plus 4.38%, and the net accruals to provisions for risks and charges recorded a release of exceeding funds of € 0.676 million.

Share of profits of investees amounted to € 7.577 million, plus 17.11%.

The **pre-tax profit from continuing operations** thus amounted to € 86.691 million, plus 34.33%. After deducting **income taxes**, amounting to € 25.93 million, plus 54.56%, and net profit of the period attributable to minority interests amounting to € 4.429 million, the already mentioned **consolidated net profit** stood at € 56.332 million, plus 21.41%.

The **consolidated own funds**, including profit of the period, at 30th June 2017, amounted to € 2.617 billion, plus 1.14% on December 31st, 2016.

Consolidated own funds for supervisory purposes as of 30th of June 2017, stood at € 3.141 billion, such amount includes the share of profits referring to the period ended on the 30th of June 2017.

Capital ratios as of 30th of June 2017, calculated on the basis of own funds as set out above, are significantly higher than the minimum levels set by the Supervisory Authority for the Banking Group Banca Popolare di Sondrio. More specifically, the CET1 ratio, the Tier 1 Ratio and Total Capital Ratio stood at (on a Phased in basis) 11.11%, 11.14% and 13.36% respectively. Such ratios reflect the adoption of the standard model for the valuation of the credit risk given that the internal models (IRB), for the time being still not validated, are not used for the calculation of the capital adequacy.

The **Leverage Ratio** as of 30th of June 2017 stood at 5.84%, by applying the transitional criteria in force for 2017 (Phased in) and 5.82% depending on the criteria provided on a Fully Phased basis.

The **branches network** of the banking Group comprises 359 branches. It is worth noting that the Parent Company opened, during the year, new branches in the cities of Fidenza and Piacenza, in addition to the opening in Martigny, Canton Vallese, implemented by the subsidiary Banca Popolare di Sondrio Suisse.

Employees of the banking Group are, at 30th of June, 2017, 3,167, an increase of 14 units compared to the end of December 2016 and adding 28 employees of the subsidiary Pirovano Stelvio spa, of which 25 seasonally employed, the total headcount reached 3,195.

The **shareholders base** is to this day formed by 176,915 members.

As for the foreseeable evolution, the persistence of a monetary policy aimed at fostering the economic recovery suggests that rates will continue to be at minimum levels, negatively affecting the interest margin. However, the gradual improvement of the general economic framework should favor a stabilization of financial markets and

also an improvement in credit quality. Overall, it is reasonable to be optimistic on the earnings trend of the exercise.

The consolidated half-yearly financial report as of June 30, 2017 is published on the corporate website "www.popso.it" and is deposited on the authorized storage mechanism eMarket Storage "www.emarketstorage.com" and at the head office of the bank.

DECLARATION

The Financial Reporting Officer, Maurizio Bertoletti, certifies, pursuant to paragraph 2 of Article 154 bis of the Consolidated Finance Law, that the accounting information contained in this press release agrees with the underlying documents, registers and accounting entries.

Signed: Maurizio Bertoletti, manager responsible for preparing corporate accounting documents

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Sondrio, 9th August 2017

Appendices:

Consolidated statement of financial position and income statement.
Reclassified summary statement of consolidated income statement.

The English translation is provided only for the convenience of the reader. In the event of discrepancies the Italian original text shall prevail.

CONSOLIDATED ACCOUNTING REPORTS AS AT 30 JUNE 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

Assets	30/06/2017	31/12/2016
10. Cash and cash equivalents	740,445	789,612
20. Financial assets held for trading	857,253	1,019,712
30. Financial assets at fair value through profit or loss	103,518	96,303
40. Available-for-sale financial assets	10,515,090	6,644,437
50. Held-to-maturity investments	94,393	117,023
60. Loans and receivables with banks	1,214,862	1,786,732
70. Loans and receivables with customers	25,711,942	25,313,464
80. Hedging derivatives	2	-
100. Equity investments	207,926	208,575
120. Property, equipment and investment property	326,163	320,922
130. Intangible assets	26,158	23,869
of which:		
- goodwill	7,847	7,847
140. Tax assets	411,021	484,698
a) current	9,963	73,251
b) deferred	401,058	411,447
b1) of which as per Law 214/2011	345,409	360,592
160. Other assets	372,311	390,978
Total assets	40,581,084	37,196,325

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

Liability and Equity	30/06/2017	31/12/2016
10. Due to banks	6,321,933	2,504,510
20. Due to customers	26,748,888	27,702,353
30. Securities issued	2,991,347	3,231,782
40. Financial liabilities held for trading	62,810	73,016
60. Hedging derivatives	30,081	38,734
80. Tax liabilities	44,014	45,636
a) current	1,830	2,963
b) deferred	42,184	42,673
100. Other liabilities	1,457,230	701,529
110. Post-employment benefits	43,174	44,805
120. Provisions for risks and charges:	175,233	181,552
a) pensions and similar obligations	135,318	130,874
b) other provisions	39,915	50,678
140. Valuation reserves	46,796	41,927
170. Reserves	1,100,372	1,033,417
180. Share premium	79,005	79,005
190. Share capital	1,360,157	1,360,157
200. Treasury shares (-)	(25,375)	(25,349)
210. Equity attributable to minority interests	89,087	84,652
220. Profit for the period	56,332	98,599
Total liabilities and equity	40,581,084	37,196,325

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	30/06/2017	30/06/2016
10. Interest and similar income	309,791	341,988
20. Interest and similar expense	(70,972)	(95,004)
30. Net interest income	238,819	246,984
40. Fee and commission income	157,703	152,445
50. Fee and commission expense	(9,325)	(9,255)
60. Net fee and commission income	148,378	143,190
70. Dividends and similar income	4,561	5,969
80. Net trading income	31,506	(19,954)
90. Net hedging income	(15)	710
100. Net gains from sales or repurchases of:	13,814	44,931
a) loans and receivables	-	-
b) available-for-sale financial assets	13,866	45,442
c) held-to-maturity instruments	-	-
d) financial liabilities	(52)	(511)
110. Net gains on financial assets and liabilities at fair value through profit or loss	5,674	(4,093)
120. Total income	442,737	417,737
130. Net impairment losses on:	(124,167)	(125,417)
a) loans and receivables	(93,895)	(123,856)
b) available-for-sale financial assets	(29,900)	(2,273)
c) held-to-maturity instruments	-	-
d) other financial transactions	(372)	712
140. Net financial income	318,570	292,320
150. Net insurance premiums	-	-
160. Other net insurance income (expense)	-	-
170. Net financial income and insurance income	318,570	292,320
180. Administrative expenses:	(262,267)	(252,981)
a) personnel expenses	(122,803)	(115,516)
b) other administrative expenses	(139,464)	(137,465)
190. Net accruals to provisions for risks and charges	676	(1,575)
200. Depreciation and net impairment losses on property, equipment and investment property	(8,979)	(8,917)
210. Amortisation and net impairment losses on intangible assets	(6,808)	(6,208)
220. Other net operating income	37,922	35,427
230. Operating costs	(239,456)	(234,254)
240. Share of profits of investees	7,577	6,275
250. Net fair value losses on property, equipment and intangible assets measured at fair value	(5)	160
260. Goodwill impairment losses	-	-
270. Net gains on sales of investments	5	35
280. Pre-tax profit from continuing operations	86,691	64,536
290. Income taxes	(25,930)	(16,777)
300. Post-tax profit from continuing operations	60,761	47,759
310. Post-tax profit (loss) from discontinued operations	-	-
320. Net profit (loss) for the period	60,761	47,759
330. Net profit (loss) of the period attributable to minority interests	(4,429)	(1,361)
340. Net profit (loss) for the period attributable to the owners of Parent bank	56,332	46,398

SUMMARY INCOME STATEMENT

(in thousands of euro)	30/06/2017	30/06/2016	(+/-)	% change
Net interest income	238,819	246,984	-8,165	-3.31
Dividends and similar income	4,561	5,969	-1,408	-23.59
Net fee and commission income	148,378	143,190	5,188	3.62
Net gains on financial assets	50,979	21,594	29,385	136.08
Total income	442,737	417,737	25,000	5.98
Net impairment losses	-124,167	-125,417	1,250	-1.00
Net financial income	318,570	292,320	26,250	8.98
Personnel expenses	-116,966	-114,668	-2,298	2.00
Other administrative expenses	-139,464	-137,465	-1,999	1.45
Other net operating income	32,085	34,579	-2,494	-7.21
Net accruals to provisions for risks and charges	676	-1,575	2,251	-142.92
Depreciation and amortisation on tangible and intangible assets	-15,787	-15,125	-662	4.38
Operating costs	-239,456	-234,254	-5,202	2.22
Operating result	79,114	58,066	21,048	36.25
Share of profits of investees and net gains on sales of investments	7,577	6,470	1,107	17.11
Pre-tax profit from continuing operations	86,691	64,536	22,155	34.33
Income taxes	-25,930	-16,777	-9,153	54.56
Net profit (loss) for the period	60,761	47,759	13,002	27.22
Net profit (loss) of the period attributable to minority interests	-4,429	-1,361	-3,068	225.42
Net profit (loss) for the period attributable to the owners of Parent bank	56,332	46,398	9,934	21.41

Notes: the result of financial activities is made up of the sum of items 80-90-100 in the income statement. The allocation of revenues from investments in Pension and similar obligations has been reclassified from "Personnel costs" to "Other operating income/expense".