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 € € 1.034.954.284
(dati approvati dall'Assemblea dei soci del 28/4/2018)

Press release

Board of Directors of 9 August 2018:
approval of the consolidated half-yearly financial report
as at 30 June 2018.
Growing profitability. Expanding volumes. Acquisition of Prestinuova Spa.

The Board of Directors of Banca Popolare di Sondrio, cooperative joint-stock company, has today examined and approved the **half-yearly consolidated financial report** as at June 30th, 2018.

- **The net profit, deriving solely from ordinary business, amounted to € 74.2 million and shows an increase of 31.6% compared to the same period last year. The net profit was hit by € 24.9 million in costs related to contributions to the Resolution Fund and to the Interbank Deposit Protection Fund.**

- **Direct funding from customers amounted to € 31,193 million, minus 1.4%.**

- **Net loans to customers amounted to € 26,017 million, plus 1.2%.**

- **New disbursements to households and businesses for over € 1,500 million.**

- **Full acquisition of PrestiNuova SpA on July 23rd, 2018.**

- **Asset management amounted to € 5,603 million, with net subscription of € 229 million.**

- **Net fees and commissions totalled € 153.393 million, plus 3.4%.**

- **Net adjustments of loans and financial assets to customers fell more than 30%.**

- **The cost of credit is 0.70% down from 0.90%.**

- **An increase is registered, compared to the already significant values at the end of 2017 and without significant adjustments to FTA by the IFRS 9, in the level of coverage of non-performing loans. Coverage of bad loans rises from 67.6% to 68.1% and reaches 76.7% if we include the amounts transferred to the income statement from previous years. The coverage ratio, calculated on total impaired exposures, rises from 51.8% to 53.6%.**

- **The indicators of incidence of impaired loans are maintained on good levels, compared to the total of loans to customers. The so-called gross NPL ratio falls to 14.72% from 15.07%, and the net one to 7.44% from 7.93% of the comparative period.**

- **Capital ratios, including portion of profit for the period, are largely higher than regulatory requirements:**

    - **CET1 Ratio phased in from 11.60% to 11.74%; fully phased at 11.63%.**
    - **Total Capital Ratio phased in from 13.66% to 13.56%; fully phased at 13.39%.**

- **The Texas ratio, the ratio between total net impaired loans and tangible equity, improved further, to 75.22% from 77.99%.**

- **Phased-in Leverage Ratio of 5.74%; *fully phased* at 5.68%.**

The below charts summarize the most significant data and information on the composition of the banking group.

The comparative economic data referring to 30/06/2017 are represented without variations with respect to the values determined in accordance with the accounting standards applicable at the time. Therefore, they cannot be compared on a consistent basis with those referred to 30/06/2018 that reflect the application of IFRS 9 from 1 January 2018.

The balance sheet figures for the comparative period referring to 31 December 2017 have been restated by incorporating the changes made at the time of the first application of the international accounting standards entered into force on January 1st of the current year.

Accounting data (in millions of Euro)

	30/06/2018	**30/06/2017**	**Variation**
Net interest income	249.7	238.8	+ 4.6%
Net commissions	153.4	148.4	+ 3.4%
Total result in securities	26.9	51	- 47,2%
Total income	433.2	442.7	- 2.1%
Adjustments to loans and financial activities	85.5	123.8	- 30.9%
Operating costs	255	239.8	+ 6.3%
Pre-tax profit	101.8	86.7	+ 17.4%
Net income	74.2	56.3	+ 31.6%

	30/06/2018	31/12/2017	Variation
Direct funding from customers	31,193	31,634	- 1.4%
Indirect funding from customer	30,573	30,119	+ 1.5%
Insurance deposits from customers	1,386	1,336	+ 3.8%
Total customer funding	63,152	63,089	+ 0.1%
Cash loans to customers	26,017	25,696	+ 1.2%

The Banking Group Banca Popolare di Sondrio is currently made up of:

- Banca Popolare di Sondrio, a cooperative joint stock company (parent company);
- Banca Popolare di Sondrio (SUISSE) SA (100% subsidiary);
- Factorit SpA (60.5% subsidiary);
- Banca della Nuova Terra spa (100% subsidiary);
- Sinergia Seconda Srl (instrumental, 100% subsidiary);
- Popso Covered Bond Srl (60% subsidiary).

In an overall positive market environment, the Group proved its ability to improve the result for the period, compared to what was achieved during the same period of the previous year.

Consolidated net income for the period amounted to € 74.2 million, up by 31.6% compared to the € 56.3 million in the first six months of 2017.

Direct deposits amounted to € 31,193 million, down 1.4% on December 31st, 2017. **Indirect deposits** amounted, according to market values, to € 30,573 million, plus 1.5% on December 31st, 2017, **insurance deposits** totalled € 1,386 million, plus 3.8% on December 31st, 2017. **Total customers deposits** amounted to € 63,152 million, plus 0.1% on December 31st, 2017.

Loans to customers, composed by loans to customers estimated at amortized cost and those measured at fair value through profit or loss, totalled € 26,017 million, plus 1.2% compared with receivables from customers at the end of 2017. This aggregate, amounting to € 25,696 million, was negatively adjusted for € 60 million, to reflect the first application of IFRS 9.

Net impaired loans stood at € 1,936 million, down 4.9%, and are the 7.44% of total loans (7.93% at the end of 2017), with a coverage of 53.64% compared to 51.79% of 31 December 2017 n the context of impaired loans, **net bad loans** amounted to € 761 million, plus 1.9%; the impact of these on total loans to customers, equal to 2.92 %, is substantially stable compared to the end of 2017. The coverage of bad loans is 68.12% compared to 67.57% on 31 December 2017. If the amounts taken to the income statement in previous years are included, the coverage is 76.72%. The "unlikely to pay" exposures amounted to € 1.052 million, down 9%, with a degree of coverage increasing from 34.67% at the end of 2017 to 36.38 % and an incidence on total funding of 4.04%, while exposures overdue and/or impaired overdue amounted to € 124 million, minus 8.2%, with a degree of coverage of 9.83% and an impact on total funding of 0.48%. This decrease is the result of the improvement in the economic context as well as of the particular attention paid to the of the deteriorated positions management.

Financial assets, represented by proprietary securities and derivatives, amounted to € 12,177 million, plus 2.4% on 31 December 2017.
Equity investments totalled € 213 million, with a negative change of about € 5 million, due to the imbalance between the effect of equity valuation and the increase for the acquisition of interests in Rent2Go for € 1.8 million.

As of 30 June 2018, short-term **liquidity** indicator (LCR- *Liquidity Coverage Ratio)* and medium-long term indicator (NSFR- *Net Stable Funding Ratio* are both largely above the minimum requirement for 2018 (100%).
The Group can always rely on a substantial portfolio of refinanceable assets which, net of the haircuts applied, amounted to € 12,807 million, + 1.93% compared to the end of 2017, of which € 6,770 million free and € 6,037 million committed.

With regard to the components of the consolidated income statement, with the results as of 30 June 2017, the net **interest income** stood at € 249.7 million, plus 4.6% compared to € 238.8 million in the comparative period. It benefits from both the time to time recording of the negative rate of the TLTRO II funding, not registered in the comparative period due to uncertainty on the effective expectancy, and the increased contribution of the coupons collected on the Bank's securities portfolio.

Net fee and **commission income** showed a positive trend, amounting to € 153.4 million, +3.4%, due especially to the good performance of those deriving from the placement of managed and insurance saving products, as well as those linked to deposit accounts, loans and collection and payment services.

Dividends collected amounted to € 3.2 million, - 30%.

The **overall result of the securities, exchange and derivatives business** (which is the sum of items 80, 90, 100 and 110 of the income financial statement) amounted to € 26.9 million, down by 47.2% compared with 51 million € of the comparative period.

The total income therefore fell to € 433.2 million, less 2.1% compared to the first six months of 2017.

Net adjustments and write-backs for credit risk, item 130 of the income statement, amounted to € 85.5 million, down 30.9% compared to the € 123.8 million in the first half of 2017. The component made of net value adjustments for credit risk relating to financial assets measured at amortized cost, which refer to exposures to customers and banks in the form of loans and securities, amounted to € 88.3 million. The adjustment to loans to customers represented by loans only amounted to € 90.9 million, down 3.1% on the comparative period.
The component of net value adjustments for credit risk relating to financial assets at fair value through other comprehensive income recorded write-backs of € 2.8 million on debt securities, while in the comparative period, with regard to the value adjustments from impairment of financial assets available for sale, the adjustments amounted to € 29.9 million, mostly related to write-downs on shares in the Atlante Fund.

Item 140 of the income statement, which includes net gains from contractual changes without the recognition, deriving from the changes made to contractual cash flows, recorded losses for € 0.7 million in the reporting period.

The ratio between the net adjustments to loans only to customers, also including adjustments of item 140 of the income statement, as above, and loans to customers themselves, the so-called cost of credit, is improving, standing at 0.70% from 0.90% on 31 December 2017.

The **net result of financial management** is equal to € 347 million, plus 8.8%.

Operating costs amounted to € 255 million, +6.3%, an increase largely attributable to the higher costs of Supervision, Resolution and Guarantee recorded in the period. The increases recorded on IT costs and consultancy costs are more physiological.

The ratio between operating costs and total income, the so called "cost income ratio", therefore stood at 58.87% from 54.17% at the end of 2017, reflecting both the increase of costs and the reduction of the intermediation margin.

Analyzing the individual cost items, the administrative costs, for which a reclassification was made regarding the provisions of the retirement fund, amounted to € 269.2 million, +5%; the personnel expenses component rose to € 117.4 million, +0.4%. Other administrative expenses increased as well from € 139.5 million to € 151.8 million, +8.8%. This significant increase is almost exclusively attributable to the charges incurred or expected for the stability of the banking system (Contributions to the National Resolution Fund and Interbank Deposit Protection Fund) for the current six months up to € 24.9 million compared to € 14 million in the comparative period.

The item “Net provisions for risks and charges” showed releases of funds for € 0.63 million, compared to a release of € 0.3 million in the comparative period. It now also includes provisions for credit risk relating to commitments and guarantees issued (which were previously allocated to line item 130 of the income statement).

Adjustments to tangible and intangible assets amounted to € 15.4 million, down 2.3%.

Other operating income, after deducting costs, reclassified as mentioned above, amounts to € 30.3 million, down by 5.7%.

The **result from operation management** therefore rose to € 91.9 million, +16.2%.

The item **profits / losses on interests and other investments** showed a positive balance of € 9.9 million, +30.3% compared to the € 7.6 million of the comparative period.

The **overall pre-tax result** amounted to € 101.8 million, + 17.4%.

After **income taxes**, equal to € 25.4 million, -2.1%, and the net profit attributable to minority interests of € 2.3 million, the **net profit for the period** amounted to € 74.2 million, +31.6%.

The **rate of taxation,** intended as mere relationship between income taxes and the result of current operations, stood at 24.9%, compared with 29.9% in the comparative period.

Consolidated own funds, including the profit for the period, amounted to € 2,599 million as of 30 June 2018, with a decrease of € 34 million, compared to 31 December 2017, already negatively adjusted for € 45 million at FTA IFRS 9.

Consolidated own funds as of 30 June 2018 amounted to € 3,012 million, compared to the € 3,106 million of 31/12/2017.

The **capital ratios as** at 30 June 2018, calculated on the basis of the own funds as described above, are significantly higher than the minimum levels required by the Supervisory Authority for the Banca Popolare di Sondrio Banking Group. The CET1 Ratio, the Tier1 Ratio and the Total Capital Ratio are positioned (under *Phased in*) on percentage values of 11.74%, 11.79% and 13.56% respectively. The data presented take into account the portion of profit for the period, to an extent that gives more precedence to destinate them to self-financing.
These coefficients reflect the use of standard credit risk weighting methods as internal rating models, are for the time being not validated and therefore do not apply to the calculation of capital adequacy ratios.

The **Leverage Ratio as** of 30 June 2018 is equal to 5.74% applying the transitional criteria in force for 2018 *(phased in)* and to 5.68% according to the criteria establish at the full regime *(fully phased).*

The **Group staff** increased to 3,220 units from 3,196 units at the end of 2017, plus the 29 resources, mostly seasonal, from Pirovano Stelvio Spa.

The Shareholders' base is currently constituted of 172,774 members.

On July 23, 2018 the operation that led to the full acquisition PrestiNuova Spa was executed. This company, specialized in granting loans secured by salary and by a pension and or assisted by a delegation of payment, therefore enter to be part of the Banking Group with the aim of implementing the development and strengthening of the specialization project in the consumer credit sector, already launched through the acquisition of Banca della Nuova Terra SpA.

With regards to the foreseeable evolution, it is legitimate to expect, also in consideration of the positive economic moment, even if in deceleration, an improvement both of the interest margin and of the commission income and of credit quality.
There are, however, uncertainty factors at the national and international levels that could heavily influence the financial markets and have an impact on income and the assets valuation operators.
Notwithstanding unpredictable events, in particular related to the uncertainties on the markets mentioned before, it is reasonable to assume the continuation of the process of consolidation of the Group's profitability.

COMPARISON DATA

In the attached accounting schedules, the balance sheet figures for the comparative period, referring to 31 December 2017, and the income statement as of 30 June 2017, were simply restated using the accounting statements required by the fifth update of Circular 262 without variations with respect to the values determined in application of the accounting standards in force at the time.
Therefore, both the balance sheet figures as of 31 December 2017 and the economic data at 30 June 2017, that do not include the effects deriving from the application of IFRS 9, cannot be compared on a consistent basis with those of the period or comment.

The consolidated half-yearly financial report as at 30 June 2018 will be published on the company website " www.popso.it" and deposited on the authorized storage mechanism eMarket Storage " www.emarketstorage.com" and at the bank's headquarters.

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DECLARATION

Pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, the Financial Reporting Officer Mr. Maurizio Bertoletti certifies that the accounting information contained in this press release accurately reflects the underlying documents, registers and accounting entries.
Signed: Maurizio Bertoletti, Financial Reporting Officer

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Sondrio, 9 August 2018

Attachments:
Consolidated statement of financial position and consolidated income statement; consolidated summary income statement.

This translation of the original Italian press release is provided for convenience only. In case of discrepancy, the Italian version prevails.

CONSOLIDATED ACCOUNTING REPORTS AS AT 30 JUNE 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

		Assets	30/06/2018	31/12/2017
IFRS 9	IAS 39			
10.	10.	Cash and cash equivalents	723,237	699,379
20.		Financial assets at fair value through profit or loss	891,859	
20a)	20.	Financial assets held for trading	301,314	372,590
20b)	30.	Financial assets designed at fair value	-	-
20c)		Financial assets mandatorily at fair value through profit or loss	590,545	
	20.	Financial assets at fair value through profit or loss		62,463
	30.	Financial assets designed at fair value		281,140
	40.	Available-for-sale financial assets		40,600
	50.	Held-to-maturity investments		6,005
	70.	Loans and receivables with customers		132,532
30.		Financial assets at fair value through other comprehensive income	5,646,053	
	20.	Financial assets at fair value through profit or loss		256,358
	40.	Available-for-sale financial assets		6,630,613
40.		Financial assets at amortised cost	32,937,762	
40a)	60.	a) Loans and receivables with banks	1,288,111	1,920,320
	50.	Held-to-maturity investments		6,856
40b)	70.	b) Loans and receivables with customers	31,649,651	25,623,303
	40.	Available-for-sale financial assets		116,824
	50.	Held-to-maturity investments		4,119,711
50.	80.	Hedging derivatives	-	-
70.	100.	Equity investments	212,917	217,634
90.	120.	Property, equipment and investment property	322,839	327,490
100.	130.	Intangible assets	25,062	23,720
		of which:		
		- goodwill	7,847	7,847
110.	140.	Tax assets	463,683	435,064
110a)	140a)	current	48,403	49,618
110b)	140b)	deferred	415,280	385,446
130.	160.	Other assets	329,670	352,052
Total assets			**41,553,082**	**41,624,654**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

		Liability and Equity	30/06/2018	31/12/2017
IFRS 9	IAS 39			
10.		Financial liabilities at amortised cost	37,583,386	
10a)	10.	Due to banks	6,390,698	6,204,835
10b)	20.	Due to customers	28,381,791	28,800,925
10c)	30.	Securities issued	2,810,897	2,833,359
20.	40.	Financial liabilities held for trading	55,851	31,259
30.	50.	Financial liabilities designated at fair value	-	-
40.	60.	Hedging derivatives	19,021	22,468
60.	80.	Tax liabilities	25,295	38,855
60a)	80a)	current	1,778	2,705
60b)	80b)	deferred	23,517	36,150
80.	100.	Other liabilities	900,006	643,520
90.	110.	Post-employment benefits	44,428	45,591
100.		Provisions for risks and charges:	233,626	
100a)		Commitments and financial guarantees given	34,122	
	100.	Other liabilities		30,152
	120.	Provisions for risks and charges		204,277
100b)	120a)	Pensions and similar obligations	163,194	160,799
100c)	120b)	Other provisions	36,310	43,478
120.	140.	Valuation reserves	(44,220)	28,478
150.	170.	Reserves	1,155,624	1,077,440
160.	180.	Share premium	79,005	79,005
170.	190.	Share capital	1,360,157	1,360,157
180.	200.	Treasury shares (-)	(25,391)	(25,370)
190.	210.	Equity attributable to minority interests	92,140	90,593
200.	220.	Profit for the period	74,154	159,210
Total liabilities and equity			**41,553,082**	**41,624,654**

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

		Items	30/06/2018	30/06/2017
IFRS 9	IAS 39			
10.	10.	Interest and similar income	308,765	309,791
		of which:		
		- Interest calculated using the effective interest method	306,108	
20.	20.	Interest and similar expense	(59,063)	(70,972)
30.	**30.**	**Net interest income**	**249,702**	**238,819**
40.	40.	Fee and commission income	163,294	157,703
50.	50.	Fee and commission expense	(9,901)	(9,325)
60.	**60.**	**Net fee and commission income**	**153,393**	**148,378**
70.	70.	Dividends and similar income	3,195	4,561
80.	80.	Net trading income	17,282	31,506
90.	90.	Net hedging income	77	(15)
100.	100.	Net gains from sales or repurchases of:	12,338	13,814
		a) Financial assets at amortized cost	2,240	
		a) Loans and receivables		-
		b) Financial assets at fair value through other comprehensive income	10,234	
		b) Available-for-sale financial assets		13,866
		c) financial liabilities	(136)	
		d) financial liabilities		(52)
110.	110.	Net gains on financial assets and liabilities at fair value through profit or loss	(2,768)	5,674
		a) Financial assets and liabilities designed at fair value	-	5,674
		b) Other financial assets mandatorily at fair value	(2,768)	
120.	**120.**	**Total income**	**433,219**	**442,737**
130.	130.	Net impairment losses on:	(85,533)	(123,795)
		a) financial assets at amortized cost	(88,310)	(93,895)
		b) financial assets at fair value through other comprehensive income	2,777	(29,900)
140.		Net gains form contractual changes without derecognition	(724)	
150.	**140.**	**Net financial income**	**346,962**	**318,942**
160.	150.	Net insurance premiums	-	-
170.	160.	Other net insurance income (expense)	-	-
180.	**170.**	**Net financial income and insurance income**	**346,962**	**318,942**
190.	180.	Administrative expenses:	(271,334)	(262,267)
		a) personnel expenses	(119,559)	(122,803)
		b) other administrative expenses	(151,775)	(139,464)
200.	190.	Net accruals to provisions for risks and charges	(634)	304
		a) commitments for guarantees given	(21)	(372)
		b) other net provisions	(613)	676
210.	200.	Depreciation and net impairment losses on property, equipment and investment property	(8,517)	(8,979)
220.	210.	Amortisation and net impairment losses on intangible assets	(6,906)	(6,808)
230.	220.	Other net operating income	32,369	37,922
240.	**230.**	**Operating costs**	**(255,022)**	**(239,828)**
250.	240.	Share of profits of investees	10,217	7,577
260.	250.	Net fair value losses on property, equipment and intangible assets measured at fair value	(352)	(5)
270.	260.	Goodwill impairment losses	-	-
280.	270.	Net gains on sales of investments	11	5
290.	**280.**	**Pre-tax profit from continuing operations**	**101,816**	**86,691**
300.	290.	Income taxes	(25,390)	(25,930)
310.	**300.**	**Post-tax profit from continuing operations**	**76,426**	**60,761**
320.	310.	Post-tax profit (loss) from discontinued operations	-	-
330.	**320.**	**Net profit (loss) for the period**	**76,426**	**60,761**
340.	330.	Net profit (loss) of the period attributable to minority interests	(2,272)	(4,429)
350.	**340.**	**Net profit (loss) for the period attributable to the owners of Parent bank**	**74,154**	**56,332**

SUMMARY INCOME STATEMENT

(in thousands of euro)	30/06/2018	30/06/2017	(+/-)	% change
Net interest income	249,702	238,819	10,883	4.56
Dividends and similar income	3,195	4,561	-1,366	-29.95
Net fee and commission income	153,393	148,378	5,015	3.38
Net gains on financial assets	26,929	50,979	-24,050	-47.18
Total income	**433,219**	**442,737**	**-9,518**	**-2.15**
Net impairment losses	-85,533	-123,795	38,262	-30.91
Net gains form contractual changes without derecognition	-724	0	-	-
Net financial income	**346,962**	**318,942**	**28,020**	**8.79**
Personnel expenses	-117,444	-116,966	-478	0.41
Other administrative expenses	-151,775	-139,464	-12,311	8.83
Other net operating income	30,254	32,085	-1,831	-5.71
Net accruals to provisions for risks and charges	-634	304	-938	-
Depreciation and amortisation on tangible and intangible assets	-15,423	-15,787	364	-2.31
Operating costs	**-255,022**	**-239,828**	**-15,194**	**6.34**
Operating result	**91,940**	**79,114**	**12,826**	**16.21**
Share of profits of investees and net gains on sales of investments	9,876	7,577	2,299	30.34
Pre-tax profit from continuing operations	**101,816**	**86,691**	**15,125**	**17.45**
Income taxes	-25,390	-25,930	540	-2.08
Net profit (loss) for the period	**76,426**	**60,761**	**15,665**	**25.78**
Net profit (loss) of the period attributable to minority interests	-2,272	-4,429	2,157	-48.70
Net profit (loss) for the period attributable to the owners of Parent bank	**74,154**	**56,332**	**17,822**	**31.64**

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”.