



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

8 February 2018: Board of Directors' approval of consolidated preliminary results for the 2017 financial year.

SOLID GROWTH - INCREASED PROFITABILITY AND NPL COVERAGE LEVEL - GOOD CREDIT QUALITY –CAPITAL STRENGTHENING

- Net profit of € 159.21 million, with an increase of 61.47% compared to the same period of the previous year. The net result would have amounted up to € 184 million without the extraordinary contributions related to the stabilization of the banking system equal to, gross of the tax effect, € 36.92 million. To such contributions, mostly attributable to the write-down of the shares held in the Atlante Fund, are added, gross of the tax effect, the ordinary contributions for the same purpose equal to € 19.09 million. For a total of € 56.01 million.
- The ratings released by the company "Dagong Europe", affiliated to the Chinese parent company "Dagong Global Credit Rating", have been confirmed recently, with a BBB long-term rating and a "stable" outlook.
- Direct funding from customers at € 31,634 million, +2.26%.

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- Net loans to customers amount € 25,756 million, + 1.75%.
 - New loans to households and companies for over € 3.2 billion.
 - Asset management amount € 5,438 million, + 13.1%.
 - Net fee and commission income increased by 4.09%.
 - Net impairment adjustments decreased by 7.35%.
 - Cost of credit decreased from 0.99% to 0.90%.
 - Cost income ratio significantly decreased from 55.31% to 50%.
 - The coverage of non-performing loans, compared to the already significant values at the end of 2016, rose from 46.17% to 50.99%, and on bad loans from 63.43% to 66.12% (at 75.23% considering the write-off amounts of previous years).
 - Overall good NPL ratio, i.e. total gross non-performing loans on gross customer exposures, decreased from 16.10% at the end of 2016 to 15.07%.
 - Increasing capital ratios, largely higher than regulatory requirements:
 - CET1 Ratio from 11.07% to 11.60%;
 - Total Capital Ratio from 13.55% to 13.66%;
 - Texas ratio, i.e. total net impaired loans on tangible equity, improved significantly from 93.47% to 77.99%.
 - Leverage ratio at 5.77%.
 - Six new branches opened in: Piacenza (Agency 02), Fidenza (PR), Milan (Agency 17), Imperia, La Spezia, Venice.
 - Staff: 176 new hires.

Below summary tables with key financial data and information on the composition of the banking Group:

Accounting data (in millions of Euro):

	31/12/2017	31/12/2016	Variation
Net interest income	490	474	+ 3,30%
Total income	962	885	+ 8,72%
Net financial income	688	606	+ 13,43%
Pre-tax profit on continuing operations	234	130	+ 79,80%
Net profit	159	99	+ 61,47%

	31/12/2017	31/12/2016	Variation
Direct funding from customers	31.634	30.934	+ 2,26%
Indirect funding from customers	30.119	28.409	+ 6,02%
Insurance funding from customers	1.336	1.266	+ 5,50%
Total customer funding	63.089	60.609	+ 4,09%
Cash loans to customers	25.756	25.313	+ 1,75%

Following the acquisition of 100% of Banca della Nuova Terra spa last September, the banking Group is currently composed of:

- Banca Popolare di Sondrio, società cooperativa per azioni (Parent Company);
- Banca Popolare di Sondrio (SUISSE) SA (100% owned subsidiary);
- Factorit spa (60.5% owned subsidiary);
- Banca della Nuova Terra spa (100% owned subsidiary);
- Sinergia Seconda srl (100% owned service company);
- Popso Covered Bond srl (60% owned subsidiary).

The Board of Directors of Banca Popolare di Sondrio, a joint stock company, today examined and approved the preliminary consolidated economic and financial data as of December 31, 2017, which are particularly satisfying despite considering the impact of the heavy charges on the income statement for the stabilization of the banking system.

Consolidated net profit for the period amounted to € 159.21 million, + 61.47 % compared to 31 December 2016. This result benefitted from the improvement of the ongoing economic recovery, which also led to both an increase in credit quality and to improved

financial markets conditions. Such a result was achieved despite the significant ordinary and extraordinary costs related to the stabilization of the banking system, which impacted the pre-tax profit for € 56.01 million.

Regarding **bancassurance**, last year the bank renewed in advance the strategic agreement for the distribution of life insurance and non-life insurance products of Arca Vita companies (Unipol group with 63.39% of the share capital, BPER Banca with 19.67% and Banca Popolare di Sondrio with 14.84%) and Arca Assicurazioni (Arca Vita 98.12%), also envisaging a widening and strengthening of the insurance products offer.

Therefore, the bank keeps the strong commitment in the sector shown in 2017, obtaining satisfying results. It is believed that there are important growth opportunities for the future and consequent benefits for customers, both in the life and in the non-life segment, with consequent positive effects on the revenues from services.

The **asset management** sector has strengthened its development path. The continuation of a scenario of interest rates close to zero and the growing need of customers for an active and structured approach to financial investments encourage the evolutionary process of the company structure to provide effective answers.

The bank, also through its subsidiary Banca Popolare di Sondrio (Suisse) SA, which is active in the strategic private banking sector, supported customers with a wide and high-quality product offer, recently enriched by the introduction of Pir by Arca Sgr, individual saving plans to support small and medium-sized Italian companies, which are attracting the growing interest of savers, also benefiting from significant tax benefits.

In order to integrate the product offer and create added value in the area of investment services, the bank developed a valued consulting service that is increasingly becoming a central and qualifying element in the relationship with customers.

The **international sector** was actively proposed to companies as a partner able not only to support them in obtaining credit facilities, but above all to assist them through high added value specialized and consulting services.

Our front office for internationalization supported counterparties in the commercial and production sectors, encouraging the knowledge of markets, the search for exchange opportunities and distribution agreements, as well as possible acquisitions and / or integrations.

We have availed ourselves of numerous and well-tested partners, thanks to which we can guarantee our customers a broad coverage of the various issues.

Our intervention in favor of companies, organizations and Public Administration interested in the European areas was always provided and, in order to do so, we availed ourselves of the qualified collaboration of CBE Geie based in Brussels as key contact partner.

Institutions and Public Administration continue to benefit from the assistance of the bank through accurate **treasury and cash services**, accompanied by the offer to their employees.

Direct deposits amount to € 31,634 million, + 2.26% on 31 December 2016. **Indirect deposits** are worth, at market value, € 30,119 million, + 6.02% on 31 December 2016, and **insurance deposits** amount € 1,336 million, + 5.50% on 31 December 2016. Total customer deposits therefore stand at € 63.089 million, + 4.09% on 31 December 2016.

Loans to customers amount up to € 25,756 million, + 1.75% compared to the end of 2016. **Net impaired loans** amount € 2,071 million, - 13.08%, and represent 8.04% of total loans compared to 9.41% at the end of 2016, with a coverage of 50.99% compared to 46.17% at 31 December 2016. In the context of impaired loans, **net bad loans** amount to € 780 million, plus 1.53%, remaining stable at 3.03% the incidence on total loans to customers. Bad loans are covered up to 66.12% compared to the coverage of 63.43% at 31 December 2016. If we consider the amounts transferred to the income statement in previous years, the coverage of these loans is equal to 75.23%. Unlikely-to-pay loans amount to € 1,161 million, - 12.18%, with a coverage ratio of 34.33% and an incidence on total loans of 4.51%, while impaired past due and/or overdrawn exposures amount to € 130 million, - 55.58%, with a coverage ratio of 16.30% and an incidence on total loans of 0.50%. These results were achieved, according to a consolidated non-performing credit management, without extraordinary transactions such as securitisations and sales of non-performing loans.

Financial assets, represented by owned securities and derivatives, amount to € 11,893 million, plus 50.98% on December 31, 2016; such increase is related also to the abundant liquidity available for the Group in this period. The investments increased by 9 million and are now up to € 218 million. This increase comes from the difference between the positive effect of shareholders' equity valuation and the decrease following the exclusion of the investment held in Banca della Nuova Terra spa, for which full consolidation was carried out.

At 31 December 2017, the short-term **liquidity** indicators (LCR-Liquidity Coverage Ratio) and medium-long term indicators (NSFR-Net Stable Funding Ratio) stand at values well above the minimum requirements for 2017 (80%) and 2018 (100%).

Regarding the components of the consolidated income statement, compared with the results as of 31 December 2016, the **interest margin** shows € 489.922 million, + 3.30%. This result demonstrates the dynamic activity of the banking group in responding to the demands of the economic sector on one hand and in seeking new opportunities to provide assistance towards the diversified world of deserving companies on the other. The purpose of supporting entrepreneurship also allowed us to meet the expectations of the European Central Bank in transmitting to the productive economy the huge resources made available with TLTROs.

Net fee and commission income amount up to € 305.08 million, + 4.09%.

Positive results from **securities and foreign exchange operations** amount to € 161.319 million, + 46.48%.

The **total income** shows € 961.854 million, + 8.72%.

Net adjustments to loans, available-for-sale assets and other financial transactions settled on € 274.329 million, with a slight decrease compared to the same period of the previous year when they amounted to € 278.545 million, with a divergent trend in its components. The loans component went down from € 250.121 to € 231.732 million, - 7.35%, and was affected by the general improvement in the economic situation and by what was done in terms of monitoring and credit control. Consequently, the cost of credit improved, decreasing from 1.63% at 31 December 2015 to 0.99% at the end of 2016, to 0.90% at 31 December of last year. The value adjustments on available-for-sale financial assets, which in the same previous period amounted to € 25.189 million, now amounts to € 35.801 million, part of which, equal to € 26.022 million, is due to the write-down of the shares held by the parent company in the Atlante Fund, an alternative investment fund created to intervene in banking crisis, € 3.089 million relate to the intervention of the FITD Voluntary Scheme for "Cassa di Risparmio di Cesena"; the residual amount of € 6.690 million refers to some equity securities and other closed-end funds.

The adjustments to other financial transactions amount to € 6.796 million and relate to endorsement credits.

The **net result of financial management** amounts to € 687.525 million, + 13.43%.

Total **operating costs**, deriving from the sum of administrative expenses, provisions, value adjustments on tangible and intangible assets, plus the balance between "other operating expenses and income", amount to € 480.894 million, - 1.72%. The administrative expenses component, which have been reclassified concerning the provision of the revenues from the retirement fund, which have a contra-entry in other operating income / expenses, shows € 513.344 million, - 1.52%, of part of which, for the amount of € 236.214 million, + 1.74%, relate to personnel expenses, and € 277.130 million, - 4.15%, relates to other administrative expenses; the latter includes € 26.899 million of charges paid for the Resolution and Guarantee Fund and the Interbank Deposit Protection Fund. The other operating charges / income component amount to € 63.320 million, - 6.85%, while value adjustments on non-current assets amount to € 36.214 million, + 7.86% and net provisions for risks and charges show a release of surplus funds for 5.344 million euros.

The **cost-income ratio** decreased from 55.31% to 50% due to both the positive increase in the intermediation margin and the contraction in operating costs.

Profits on investments and other investments amount to € 27.049 million, + 105.45%; this item includes € 3,681 million of the negative difference from consolidation as a consequence of the full consolidation of Banca della Nuova Terra Spa and of Servizi Internazionali e Strutture Integrate 2000 Srl.

The **result of current operations** thus stands at € 233.680 million, + 79.80%.

After deducting **income taxes**, amounting to € 68.496 million, + 127.61%, and profit attributable to minority interests, € 5.974 million, the aforementioned consolidated net income € 159.210 million is reached, + 61.47%.

Consolidated own funds, including profit for the period, amount to € 2,679 million at 31 December 2017, + 3.52% on 31 December 2016.

Consolidated own funds for supervisory purposes at 31 December 2017 amount to € 3,106 million; this amount includes a portion of the profit for 2017.

The **capital ratios** as at 31 December 2017, based on the own funds as described above, are significantly higher than the minimum levels set by the Supervisory Authority for Banca Popolare di Sondrio Banking Group. In details, the CET1 Ratio, the Tier1 Ratio and the Total Capital Ratio are positioned, with phase-in approach, on percentage values equal to 11.60%, 11.63% and 13.66% respectively. These ratios were calculated using a standardized approach for the valuation of credit risk, as internal rating models may not be implemented for the calculation of capital adequacy ratios since they have not yet been validated.

The **Leverage Ratio** as of 31 December 2017 is equal to 5.77% applying the interim criteria in force for 2017 (phase-in) and 5.74% based on the fully-operational criteria.

The **territorial development** activity continued in 2017 with the opening of 6 new branches: the agencies of Piacenza Ag.02, Fidenza (PR), Milan Ag.17, Imperia, La Spezia, Venice. The development was adequately supported with the recruitment of new employees.

The **Group staff** amounts to 3,199 employees.

Shareholders currently amount to 175,163.

In conclusion, the confirmed profitability and capital solidity provide evidence of the capacity of Banca Popolare di Sondrio Banking Group to pursue, also for the future, a virtuous path of growth, focused on customers and territories.

The financial statements for 2017 will be examined and approved at the Board meeting scheduled on March 16th.

DECLARATION

Pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, the Financial Reporting Officer Mr. Maurizio Bertolotti 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, 8 February 2018

Attachments:

Consolidated statement of financial position and consolidated income statement;
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 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Assets	31/12/2017	31/12/2016
10. Cash and cash equivalents	699,379	789,612
20. Financial assets held for trading	691,411	1,019,712
30. Financial assets at fair value through profit or loss	281,139	96,303
40. Available-for-sale financial assets	6,788,037	6,644,437
50. Held-to-maturity investments	4,132,572	117,023
60. Loans and receivables with banks	1,920,320	1,786,732
70. Loans and receivables with customers	25,755,836	25,313,464
80. Hedging derivatives	-	-
100. Equity investments	217,634	208,575
120. Property, equipment and investment property	327,490	320,922
130. Intangible assets	23,720	23,869
of which:		
- goodwill	7,847	7,847
140. Tax assets	435,064	489,943
a) current	49,618	73,251
b) deferred	385,446	416,692
b1) of which as per Law 214/2011	336,368	360,592
160. Other assets	352,052	390,978
Total assets	41,624,654	37,201,570

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Liability and Equity	31/12/2017	31/12/2016
10. Due to banks	6,204,835	2,504,510
20. Due to customers	28,800,925	27,702,353
30. Securities issued	2,833,359	3,231,782
40. Financial liabilities held for trading	31,259	73,016
60. Hedging derivatives	22,468	38,734
80. Tax liabilities	38,855	45,636
a) current	2,705	2,963
b) deferred	36,150	42,673
100. Other liabilities	673,672	701,529
110. Post-employment benefits	45,491	44,805
120. Provisions for risks and charges:	204,277	201,724
a) pensions and similar obligations	160,799	151,046
b) other provisions	43,478	50,678
140. Valuation reserves	28,478	27,000
170. Reserves	1,077,440	1,033,417
180. Share premium	79,005	79,005
190. Share capital	1,360,157	1,360,157
200. Treasury shares (-)	(25,370)	(25,349)
210. Equity attributable to minority interests	90,593	84,652
220. Profit for the period	159,210	98,599
Total liabilities and equity	41,624,654	37,201,570

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	31/12/2017	31/12/2016
10. Interest and similar income	631,639	663,566
20. Interest and similar expense	(141,717)	(189,316)
30. Net interest income	489,922	474,250
40. Fee and commission income	324,053	311,875
50. Fee and commission expense	(18,973)	(18,778)
60. Net fee and commission income	305,080	293,097
70. Dividends and similar income	5,533	7,209
80. Net trading income	60,429	31,545
90. Net hedging income	(115)	262
100. Net gains from sales or repurchases of:	95,244	76,011
a) loans and receivables	-	-
b) available-for-sale financial assets	94,795	76,331
c) held-to-maturity instruments	-	-
d) financial liabilities	449	(320)
110. Net gains on financial assets and liabilities at fair value through profit or loss	5,761	2,309
120. Total income	961,854	884,683
130. Net impairment losses on:	(274,329)	(278,545)
a) loans and receivables	(231,732)	(250,121)
b) available-for-sale financial assets	(35,801)	(25,189)
c) held-to-maturity instruments	-	-
d) other financial transactions	(6,796)	(3,235)
140. Net financial income	687,525	606,138
150. Net insurance premiums	-	-
160. Other net insurance income (expense)	-	-
170. Net financial income and insurance income	687,525	606,138
180. Administrative expenses:	(522,300)	(525,961)
a) personnel expenses	(245,170)	(236,834)
b) other administrative expenses	(277,130)	(289,127)
190. Net accruals to provisions for risks and charges	5,344	(2,439)
200. Depreciation and net impairment losses on property, equipment and investment property	(18,945)	(18,606)
210. Amortisation and net impairment losses on intangible assets	(17,269)	(14,969)
220. Other net operating income	72,276	72,640
230. Operating costs	(480,894)	(489,335)
240. Share of profits of investees	26,517	12,973
250. Net fair value losses on property, equipment and intangible assets measured at fair value	515	130
260. Goodwill impairment losses	-	-
270. Net gains on sales of investments	17	63
280. Pre-tax profit from continuing operations	233,680	129,969
290. Income taxes	(68,496)	(30,094)
300. Post-tax profit from continuing operations	165,184	99,875
310. Post-tax profit (loss) from discontinued operations	-	-
320. Net profit (loss) for the period	165,184	99,875
330. Net profit (loss) of the period attributable to minority interests	(5,974)	(1,276)
340. Net profit (loss) for the period attributable to the owners of Parent bank	(159,210)	98,599

SUMMARY INCOME STATEMENT

(in thousands of euro)

(in thousands of euro)	31/12/2017	31/12/2016	(+/-)	% change
Net interest income	489,922	474,250	15,672	3.30
Dividends and similar income	5,533	7,209	-1,676	-23.25
Net fee and commission income	305,080	293,097	11,983	4.09
Net gains on financial assets	161,319	110,127	51,192	46.48
Total income	961,854	884,683	77,171	8.72
Net impairment losses	-274,329	-278,545	4,216	-1.51
Net financial income	687,525	606,138	81,387	13.43
Personnel expenses	-236,214	-232,172	-4,042	1.74
Other administrative expenses	-277,130	-289,127	11,997	-4.15
Other net operating income	63,320	67,978	-4,658	-6.85
Net accruals to provisions for risks and charges	5,344	-2,439	7,783	-319.11
Depreciation and amortisation on tangible and intangible assets	-36,214	-33,575	-2,639	7.86
Operating costs	-480,894	-489,335	8,441	-1.72
Operating result	206,631	116,803	89,828	76.91
Share of profits of investees and net gains on sales of investments	27,049	13,166	13,883	105.45
Pre-tax profit from continuing operations	233,680	129,969	103,711	79.80
Income taxes	-68,496	-30,094	-38,402	127.61
Net profit (loss) for the period	165,184	99,875	65,309	65.39
Net profit (loss) of the period attributable to minority interests	-5,974	-1,276	-4,698	368.18
Net profit (loss) for the period attributable to the owners of Parent bank	159,210	98,599	60,611	61.47

Notes: the result of financial activities is made up of the sum of items 80-90-100-110 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".