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 € 983.893.092
(dati approvati dall'Assemblea dei soci del 27/04/2019)

Board of Directors' meeting of May 9, 2019: approval of consolidated interim results as of March 31, 2019

Positive results confirming the solidity of the business

The Board of Directors of Banca Popolare di Sondrio, cooperative joint-stock company, has today examined and approved the interim consolidated financial report as of March 31, 2019.

- Consolidated net income of € 34.9 million (-18.5%), significantly affected by contributions aimed at stabilizing the banking system, which amounted to € 21 million in the quarter, net of which the result for the period would have been around 50 million euros. Particularly positive, thanks to the good performance of the markets, the final result of the overall activity in financial securities.
- The return on capital (ROE), on an annual basis, stands at 5.2%.
- With regard to capital levels, the CET1 ratio phased in stands at 12.06%, up 3 basis points compared to 12.03% at the end of 2018. The weighting of assets discounts the standard method and does not include the effects of the validation by the ECB of the internal rating model system.

- Both short-term (Liquidity Coverage Ratio) and medium-term (Net Stable Funding Ratio) liquidity indicators are positioned on absolute comfortable values, well above the minimum requirements.

- The total income, thanks to the positive market dynamics, increased from € 211.3 million in the first quarter of 2018 to € 226.8 million in the reference period (+7.3%).

- The traditional closeness to customers and reference communities confirmed: families and businesses have benefited, since the beginning of the year, from new loans for around one billion.

- Direct customer deposits amounted to € 30,496 million, compared with € 31,063 million at the end of 2018 (-1.8%); the indirect one amounted to € 31,541 million compared to € 30,182 million in the comparative period (+4.5%). Insurance premiums amounted to € 1,447 million compared with € 1,410 million in the previous year (+2.6%).

- Loans to customers amounted to € 25,962 million, a slight increase (+0.5%) compared to € 25,845 million at the end of 2018.

- Gross impaired loans have decreased by a total of 89 million euros (-2.1%) since the beginning of the year. The contraction of bad loans was more marked (-4.3%). The ratio between gross non-performing loans and total loans to customers (NPL Gross Ratio) is reduced to 14.44% compared to 14.75% at the end of 2018.

- The cost of credit risk, given by the ratio between adjustments to loans and total loans to customers, was reduced to 0.68% compared to 0.93% at the end of 2018.

- Non-performing loan coverage ratios remain at particularly high levels: that of total non-performing loans stands at 53.59%; that referred only to positions classified as bad loans amounts to 67.44%

- The Texas ratio, the ratio between the total net impaired loans and the tangible net assets, is further reduced, reaching 70.37% from 70.71% at the end of 2018.

- The phased-in Leverage Ratio stands at 6.01%, while the fully phased Leverage is 5.97%.

- The staff, the company's main asset, amounts to 3,255 units. 39 new hires from the beginning of 2019.

Below are the summary tables of the most significant data as well as the information on the composition of the Banking Group.

Accounting data (in millions of euros)

	31/03/2019	31/03/2018	Change
Net interest income	120.2	120.2	+0%
Net commissions	75.5	76.3	-1%
Total result of financial securities' activities	30.5	14.3	+113.6%
Total income	226.8	211.3	+7.3%
Value adj. to loans and financial activities	43.3	29.3	+47.7%
Operating costs	136.4	130.3	+4.7%
Income before taxes	50.5	55.9	-9.7%
Net income	34.9	42.8	-18.5%

	31/03/2019	31/12/2018	Change
Total direct funding from customers	30,496	31,063	-1.8%
Total indirect funding from customers	31,541	30,182	+4.5%
Insurance premiums	1,447	1,410	+2.6%
Total funding from customers	63,485	62,655	+1.3%
Loans to customers	25,962	25,845	+0.5%

The banking group Banca Popolare di Sondrio currently consists of:

- Banca Popolare di Sondrio, cooperative joint-stock company (parent company);
- Banca Popolare di Sondrio (SUISSE) SA (100% controlled company);

- Factorit S.p.A. (60,5% controlled company);
- Banca della Nuova Terra S.p.A. (100% controlled company);
- PrestiNuova S.p.A. (100% controlled company);
- Sinergia Seconda S.r.l. (instrumental company, 100% controlled);
- Popso Covered Bond S.r.l. (60% controlled company).

The Group, even in a difficult context, above all because of the uncertainties of the economic situation at both domestic and global level, was able to achieve a result for the period which, although decreasing, is to be considered satisfactory.

Consolidated net income at 31 March 2019 amounted to € 34.9 million, down 18.5% compared to the € 42.8 million of the first three months of 2018.

In comparison with the volumes at the end of 2018: direct deposits amounted to € 30,496 million (-1.8%), indirect deposits, at market values, stood at € 31,541 million (+4.5%), insurance premiums totalled € 1,447 million (+2.6%). Total customer deposits therefore stood at € 63,485 million (+1.3%).

Net loans to customers, the sum of volumes valued at amortized cost and assets measured at fair value through profit or loss, amounted to € 25,962 million, up slightly on € 25,845 million at the end of 2018 (+0.5%).

Net non-performing loans amount to € 1,895 million (+2.4%) and represent 7.30% of total loans; the incidence is therefore slightly up compared to 7.16% at the end of 2018. The coverage level remains at particularly high levels, at 53.59%. In this context, net bad loans amounted to € 773 million (+1.6%) with an incidence on total loans to customers of 2.98% compared to 2.94% at the end of 2018. The coverage ratio was equal to to 67.44% compared to 69.36% at the end of 2018. Taking into account the amounts transferred to the income statement in previous years, the coverage of these receivables stands at 76.89%. Net unlikely to pay loans amount to 1,039 million euros (+3.3%), with a coverage ratio of 35.71%. The incidence of these on total loans rose to 4% compared to 3.89% at the end of 2018. Net past due and / or overdrawn exposures amount to € 83 million (-1.9%)

with a degree of coverage that is at 11.30% and an incidence on total loans of 0.32%.

Financial assets, represented by owned securities and derivatives, amounted to € 10,272 million, down (-7.2%) compared to the volumes recorded at the end of the previous year. The volume of the portfolio of financial assets valued at amortized cost increased further from 6,024 million euros at the end of 2018 to 6,262 million euros at 31 March 2019 (+4%) with an impact on total financial assets exceeding 60%. Conversely, the amount of the portfolio consisting of financial assets designated at fair value with an impact on the overall profitability went from € 4,424 million at the end of 2018 to € 3,396 million at the end of March 2019 (-23.2%). This decrease reflects the lower exposure of the Group towards Italian public debt. The total volume of Italian government bonds in fact stands at 6,925 million euros, a further contraction (-13.6%) compared to the 8,014 million euros of the end of 2018.

Equity investments increased to € 226 million from € 221 million at December 31, 2018 (+2.2%).

As at 31 March 2019, both the short-term liquidity indicator (LCR-Liquidity Coverage Ratio) and medium-long term one (NSFR-Net Stable Funding Ratio) stood at values well above the minimum requirement for 2019 (100%). The Group can always rely on a substantial portfolio of refinanceable assets which, net of the applied haircuts, amounted to € 11,364 million, more than half of which, € 6,244 million (55%), represented by free securities.

With regard to the components of the consolidated income statement, the net interest income amounted to € 120.2 million, remaining at the same level of the first three months of 2018.

Net commissions from services stood at € 75.5 million, showing a slight contraction (-1%) compared to the 76.3 million of the first quarter of 2018.

The amount of **dividends** received is stable, amounting to € 0.6 million.

The **overall result of the activity in securities, forex, derivatives and loans** (given by the sum of the items 80, 90, 100 and 110 of the income statement) amounted to € 30.5 million, a considerable increase (+113.6%) compared to the 14.3 million euro reported as of 31 March 2018. This is due to the positive performance of the financial markets that characterized the first quarter of the current year.

As a result of this, the **total income** rose to € 226.8 million from € 211.3 million in the comparative period (+7.3%).

Adjustments and **net write-backs for credit risk**, item 130 of the income statement, amounted to € 43.3 million compared to € 29.3 million in the comparative period (+47.7%). The only component consisting of net value adjustments for credit risk relating to financial assets valued at amortized cost, represented by exposures to customers and banks in the form of both loans and securities, amounted to € 44.2 million compared to 31,8 € million in the first three months of 2018 (+39.1%).
This increase reflects, to a significant extent, the negative impact deriving from the use, in the calculation of the impairments, as envisaged by the new accounting standards (IFRS 9), of a macro economic scenario that discounts downward revised forecasts for the current year.
The net value adjustments component for credit risk relating to financial assets valued at fair value with impact on the overall profitability recorded write-backs of 1 million euro relating to the debt securities component.
Item 140 of the income statement, which records the profits / losses from contractual changes without cancellations, deriving from the changes made to the contractual cash flows, recorded losses of € 0.7 million compared to € 0.9 million, with a similar sign, booked in the comparative period (-20.2%).
The ratio between net value adjustments for credit risk relating to financial assets valued at amortized cost, item 130a of the income statement, and net loans to customers, the so-called cost of credit, is equal to 0.68%, down from 0.93% at the end of 2018.

The net result of the financial management has therefore increased, reaching € 182.8 million out of € 181.2 million in the first quarter of 2018.

Operating costs amounted to € 136.4 million from € 130.3 million in the comparative period (+4.7%). This aggregate, to an even greater extent than that recorded in the first three months of 2018, suffers the substantial charges envisaged for the stability of the banking system of € 21 million compared to the € 17 million of the comparative quarter.
The ratio between operating costs and net banking income, the so-called «cost income ratio», benefiting from the improved revenue dynamic (+ 7.1%) compared to costs (+4.7%), was therefore brought to 60.14% from 61.64% of March 31st, 2018.
Analyzing the individual cost items, administrative expenses, for which a reclassification was made regarding the allocation of the proceeds from the employee pension fund, amounted to € 138.8 million, down compared to the 141.2 million euro for the comparative period (-1.7%). In this context: staff costs rose to € 60.8 million from € 59.8 million (+ 1.7%), while other administrative expenses fell from € 81.4 million in the first quarter 2018 to 78 million euros in the reference period (-4.1%).
This contraction mainly reflects the impact deriving from the entry into force, from 1 January 2019, of the new accounting standard IFRS 16.
The item net provisions for risks and charges showed provisions of € 1.2 million, compared to a release of funds of € 3.1 million in the comparative period.

Adjustments to tangible and intangible assets amounted to € 12.4 million, a significant increase compared to € 7.4 million in the first quarter of 2018 (+67.5%). The increase is largely attributable to the effect, with opposing logic to those described above in the item of other administrative expenses, of the entry into force, from 1 January 2019, of the new accounting standard IFRS 16.
Other operating expenses and income, subject to reclassification as mentioned above, totalled € 16.1 million, an increase compared to the € 15.2 million of the first quarter of 2018 (+5.8%).

The **result of operations** was therefore € 46.4 million (-8.8%).

The item **profits / losses on equity investments and other investments** showed a positive balance of € 4.1 million, a decrease compared to € 5 million in the comparative period (-19.1%).

The **overall pre-tax result** therefore amounted to € 50.5 million (-9.7%).

Finally, after deducting **income taxes** of € 15.4 million, as well as **minority interests** of € 0.2 million, **net income** for the year of € 34.9 million is obtained, decreasing compared to the result of the same period in 2018 (-18.5%).

Consolidated own funds, including the profit for the year, amounted to € 2,726 million at March 31, 2019, up € 75 million compared to the end of 2018.

Consolidated own funds for supervisory purposes as at 31 March 2019, taking into account the portion of profits for the period destined for self-financing, amounted to € 3,014 million compared to € 2,981 million at 31 December 2013 (+ 1.1%).

The **capital ratios** as at 31 March 2019, calculated on the basis of the own supervisory funds as described above, fully meet the minimum levels set by the Supervisory Authority for the Banca Popolare di Sondrio Banking Group. The CET1 Ratio, the Tier 1 Ratio and the Total Capital Ratio are positioned (under the Phased in regime) on values equal to 12.06%, 12.09% and 13.49% respectively. The figures shown take into account, to an extent in line with the dividend policy usually followed by the Group, a portion of the profits for the period. These coefficients still reflect the use of standard credit risk weighting methods. A further appreciation of the prudential capital ratios is therefore expected following the adoption of the advanced AIRB models, for which the Bank awaits authorization from the Supervisory Authority.

The **Leverage Ratio** at 31 March 2019 is equal, applying the transitory criteria in force for 2018 (phased in), to 6.01% and, depending on the criteria provided for in

the regime (fully phased) at 5.97%.
At 31 March 2019, the **banking group's staff** totalled 3,255. In the first three months of 2019 there were 39 new hires.

The **shareholders' base** currently consists of 169,113 members.

As far as the foreseeable developments are concerned, it is reasonable to hypothesize that in the course of the current year it will be possible to create at the Group level the conditions for the achievement of a good income performance, even if the known uncertainties linked to the evolution of the geopolitical economic and financial context continue to burden.

EXPOSURE OF COMPARISON DATA

In the attached accounting schedules, the balance sheet figures for the comparative period, referring to 31/12/2018, and the income statement figures for 31/03/2018 were simply restated.
Therefore, both the balance sheet data as at 31 December 2018 and the economic data as at 31 March 2018, which do not include the effects deriving from the application of IFRS 16, are not comparable on a homogeneous basis with those of the reference period.

The consolidated interim report as at 31 March 2019 will be published, on a voluntary basis, on the company website "www.popso.it" and deposited on the authorized storage mechanism eMarket Storage "www.emarketstorage.com" and at the head office of the bank.

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DECLARATION

The manager in charge of preparing the corporate accounting documents, Mr. Maurizio Bertoletti, declares, pursuant to paragraph 2 of article 154 bis of the Consolidated Finance Act, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

Signed:
Maurizio Bertoletti, manager in charge of preparing the corporate accounting documents.

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Sondrio, 9 May 2019

Attachments
consolidated balance sheet and income statement formats;
summary of the reclassified consolidated income statement.

The English translation is provided only for the benefit of the reader and in the case of discrepancies the Italian version will prevail.

INTERIM CONSOLIDATED ACCOUNTING REPORTS AS AT 31 MARCH 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

Assets	31/03/2019	31/12/2018
10. Cash and cash equivalents	1,921,930	1,577,163
20. Financial assets at fair value through profit or loss	825,183	858,069
a) financial assets held for trading	239,705	251,044
b) financial assets designed at fair value	-	-
c) financial assets mandatorily at fair value through profit or loss	585,478	607,025
30. Financial assets at fair value through other comprehensive income	3,395,511	4,423,618
40. Financial assets at amortised cost	33,066,388	32,873,554
a) loans and receivables with banks	1,329,500	1,320,621
b) loans and receivables with customers	31,736,888	31,552,933
50. Hedging derivatives	-	-
70. Equity investments	225,843	220,957
90. Property, equipment and investment property	563,016	328,161
100. Intangible assets	33,313	33,259
of which:		
- goodwill	12,632	12,632
110. Tax assets	444,639	465,040
a) current	28,203	31,834
b) deferred	416,436	433,206
130. Other assets	295,759	348,364
Total assets	**40,771,582**	**41,128,185**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Liability and Equity	31/03/2019	31/12/2018
10. Financial liabilities at amortised cost	36,804,887	37,228,347
a) due to banks	6,308,553	6,165,836
b) due to customers	27,846,260	28,630,307
c) securities issued	2,650,074	2,432,204
20. Financial liabilities held for trading	66,086	57,211
30. Financial liabilities designated at fair value	-	-
40. Hedging derivatives	16,382	16,826
60. Tax liabilities	32,180	29,767
a) current	3,569	4,252
b) deferred	28,611	25,515
80. Other liabilities	733,503	760,091
90. Post-employment benefits	43,382	43,222
100. Provisions for risks and charges:	256,317	248,850
a) loans commitments and financial guarantees given	42,853	46,163
b) pensions and similar obligations	163,725	160,734
c) other provisions	49,739	41,953
120. Valuation reserves	2,807	(34,452)
150. Reserves	1,274,125	1,160,683
160. Share premium	79,005	79,005
170. Share capital	1,360,157	1,360,157
180. Treasury shares (-)	(25,382)	(25,375)
190. Equity attributable to minority interests	93,232	93,049
200. Profit for the period	34,901	110,804
Total liabilities and equity	**40,771,582**	**41,128,185**

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	31/03/2019	31/03/2018
10. Interest and similar income	148,698	149,810
of which:		
- Interest calculated using the effective interest method	146,840	149,233
20. Interest and similar expense	(28,498)	(29,582)
30. Net interest income	**120,200**	**120,228**
40. Fee and commission income	80,491	80,928
50. Fee and commission expense	(4,963)	(4,638)
60. Net fee and commission income	**75,528**	**76,290**
70. Dividends and similar income	561	551
80. Net trading income	21,004	11,343
90. Net hedging income	-	(13)
100. Net gains from sales or repurchases of:	2,783	4,759
a) financial assets at amortized cost	357	1,221
b) financial assets at fair value through other comprehensive income	2,132	3,586
c) financial liabilities	294	(48)
110. Net gains on financial assets and liabilities at fair value through profit or loss	6,687	(1,823)
120. Total income	**226,763**	**211,335**
130. Net impairment losses on:	(43,259)	(29,295)
a) financial assets at amortized cost	(44,234)	(31,806)
b) financial assets at fair value through other comprehensive income	975	2,511
140. Net gains form contractual changes without derecognition	(695)	(871)
150. Net financial income	**182,809**	**181,169**
160. Net insurance premiums	-	-
170. Other net insurance income (expense)	-	-
180. Net financial income and insurance income	**182,809**	**181,169**
190. Administrative expenses:	(141,872)	(142,086)
a) personnel expenses	(63,849)	(60,721)
b) other administrative expenses	(78,023)	(81,365)
200. Net accruals to provisions for risks and charges	(1,220)	3,110
a) commitments for guarantees given	3,308	3,860
b) other net provisions	(4,528)	(750)
210. Depreciation and net impairment losses on property, equipment and investment property	(9,388)	(4,226)
220. Amortisation and net impairment losses on intangible assets	(3,017)	(3,182)
230. Other net operating income	19,124	16,110
240. Operating costs	**(136,373)**	**(130,274)**
250. Share of profits of investees	4,067	5,016
260. Net fair value losses on property, equipment and intangible assets measured at fair value	-	-
270. Goodwill impairment losses	-	-
280. Net gains on sales of investments	-	11
290. Pre-tax profit from continuing operations	**50,503**	**55,922**
300. Income taxes	(15,419)	(12,072)
310. Post-tax profit from continuing operations	**35,084**	**43,850**
320. Post-tax profit (loss) from discontinued operations	-	-
330. Net profit (loss) for the period	**35,084**	**43,850**
340. Net profit (loss) of the period attributable to minority interests	(183)	(1,041)
350. Net profit (loss) for the period attributable to the owners of Parent bank	**34,901**	**42,809**

CONSOLIDATED SUMMARY INCOME STATEMENT

(in thousands of euro)	31/03/2019	31/03/2018	(+/-)	% change
Net interest income	120,200	120,228	-28	-0.02
Dividends and similar income	561	551	10	-
Net fee and commission income	75,528	76,290	-762	-1.00
Net gains on financial assets	30,474	14,266	16,208	113.61
Total income	**226,763**	**211,335**	**15,428**	**7.30**
Net impairment losses	-43,259	-29,295	-13,964	47.67
Net gains form contractual changes without derecognition	-695	-	-	-
Net financial income	**182,809**	**181,169**	**1,640**	**0.91**
Personnel expenses	-60,785	-59,791	-994	1.66
Other administrative expenses	-78,023	-81,365	3,342	-4.11
Other net operating income	16,060	15,180	880	5.80
Net accruals to provisions for risks and charges	-1,220	3,110	-4,330	-
Depreciation and amortisation on tangible and intangible assets	-12,405	-7,408	-4,997	67.45
Operating costs	**-136,373**	**-130,274**	**-6,099**	**4.68**
Operating result	**46,436**	**50,895**	**-4,459**	**-8.76**
Share of profits of investees and net gains on sales of investments	4,067	5,027	-960	-19.10
Pre-tax profit from continuing operations	**50,503**	**55,922**	**-5,419**	**-9.69**
Income taxes	-15,419	-12,072	-3,347	27.73
Net profit (loss) for the period	**35,084**	**43,850**	**-8,766**	**-19.99**
Net profit (loss) of the period attributable to minority interests	-183	-1,041	858	-82.42
Net profit (loss) for the period attributable to the owners of Parent bank	**34,901**	**42,809**	**-7,908**	**-18.47**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. Personnel expenses and other operating income have been reclassified, netting them off against the proceeds of the post-employment benefits fund of € 3.064 million.