Banca Popolare di Sondrio

Società cooperativa per azioni – Established 1871
Head office: I - 23100 Sondrio SO - Piazza Garibaldi 16
Sondrio Company Register no. 00053810149
Official List of Banks no. 842
Parent Bank of Banca Popolare di Sondrio Banking Group, Official List of Baking Groups no. 5696.0
Official List of Cooperative Banks no. A160536
Member of Interbank Deposit Protection Fund
Tax code and VAT Number IT00053810149
Share capital € 1,360,157,331

Board of directors' meeting of 10 February 2015: approval of the 2014 consolidated interim report on operations.

The Board of Directors of Banca Popolare di Sondrio, *società cooperativa per azioni*, today reviewed and approved the consolidated interim report on operations at 31 December 2014, which showed satisfactory results.

Net consolidated profit totalled **€ 115.203 million, up 117,23% compared with 2013.**

Direct customer deposits amounted to € 29,717 million, up 11.40% from 31 December 2013. **Wholesale deposits** at market values stood at € 28,553 million, up 4.43%. **Insurance premium income** amounted to € 897 million, up 24.86%. **Total deposits from customers** therefore amounted to € 59,168 million, up 8.10%.

Loans to Customers added up to € 24,012 million, up 0.45% from 31 December 2013. **Non Performing Loans** added up to € 2,069 million, up 12,56%, and accounted for 8.62% of total loans, with a 43.21% coverage compared with 39,22% coverage at 31 December 2013.
Within the framework of Non Performing Loans, **net Bad Loans**, amounted to € 615 million, up 33.39% and accounted for 2.56% of Loans to Customers. **Bad Loans** coverage ratio is 61.14% compared with 60.94% at 31 December 2013.

Financial assets, accounted for by treasury stocks and derivatives, added up to
€ 9,071 million, up 33.49% from 31 December 2013.

With regard to consolidated income statement items, compared with 2013 figures, the **interest margin** posted € 590.923 million, up 5.68%.

Net service commissions added up to € 300.021 million, up 6.01%.

Securities portfolio management showed a positive € 199.288 million, up 17.84%.

Intermediation margin posted € 1,093.756 million, up 7.87%.

Net adjustments due to deterioration, made in line with prudential valuation criteria, stood at € 481.895 million, down 1,71%, an item which is comprised of € 464.084 million presented by Loans to Customers.

The net result of **financial operations** came to € 611.861 million, up 16.84%.

Total **operating costs** amounted to € 411.884 million, up 2.98%. The **administrative expenses** item was equal to € 457.273 million, up 3,65%, of which € 223.125 million, up 1.84%, relating to cost of staff, and € 234.148 million, up 5,43%, arising from other administrative expenses.

The result of **current operations** stood at € 205.607 million, up 64,03%. After deducting **income tax**, amounting to € 80.325 million and profit attributable to minorities, amounting to € 10.079 million, the 2014 consolidated **net profit** stood at € 115.203 million.

At 31 December 2014 **consolidated own funds** amounted to € 2,407 million, up 24.33% from 31 December 2013.

At 31 December 2014 **consolidated own regulatory capital** amounted to € 3,129.7 million, up 25.08% from 31 December 2013. Said amount includes the profit for the period ended 30 September 2014 in compliance with the specific authorisation from the European Central Bank.

Capital ratios at 31 December 2014 relating to CET1 Ratio, Tier1 Ratio and Total Capital Ratio, calculated based on own funds as shown above, stood above the minimum prudential requirements, accounting for 9.75%, 9.76% and 13.07% respectively.

The 2014 financial statements will be reviewed and approved during the board meeting to be held at the end of March 2015.

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Having regard to the outcome of the Comprehensive Assessment («CA») exercise carried out by the European Central Bank («ECB») and the European Banking Authority («EBA»), and in particular the results of the *Asset Quality Review* - AQR set out in the *disclosure template* published on 26 October past, the following information is provided, as requested by Consob with letter dated 30 January 2015, protocol no. 0007634/15, pursuant to Art. 114, paragraph 5, of Law Decree no. 58/98.

With regard to the guidelines that lead to its development, the Comprehensive Assessment is an exercise mostly characterized by a prudential approach, not an accounting one, based on the conservative application of assessment criteria which do not replace the international accounting principles adopted to draw up the financial statements. Nonetheless, for purposes of preparation of the consolidated financial statements at 31 December 2014, where deemed applicable consideration was given to the outcome of the AQR.

With reference to the Credit File Review - CFR, the AQR highlighted overall adjustments, gross of the tax effect, equal to € 162.7 million, resulting from the difference between € 200.4 million of potential higher provisions and € 37.7 million as write-ups referred to positions as to which, in line with the assessment method, lower amount entries could be made.

With regard to said positions, a net increase in provisions was posted to the consolidated financial statements at 31 December 2014 equal to € 181.6 million. Said increase, which is € 19.0 million higher than reported during the inspection, results from:

- € 189.7 million as new provisions against a request of € 200,4 million. The difference, equal to € 10.7 million, results from the summation of:
    - € 64.8 million as adjustments detected during the AQR however not recognized in the accounts by Group for these are positions:
        - that are backed by bank guarantees granted by parties that, on the Group's opinion, are completely solvent and, in compliance with the assessment method foreseen by the AQR, had not been taken into account;
        - the subject of restructuring plans entered into in 2014 in compliance with the legislation in force, as for which therefore the terms and possible development of the relation underlying the credit assessment have changed;
        - the subject of settlement agreements entered into with clients or risk mitigation measures adopted by the bank;
    - € 54.1 million in additional provisions made by the Group as a result of the developments in the debtors' financial position;
- € 8.1 million as write-ups against € 37.7 million reported by the CA exercise, given the Group's decision not to book write-ups amounting to € 29.6 million.

With reference to the outcome of the statistical Projection of findings, amounting to € 33.2 million, no direct accounting impact was recognized in the 2014 financial statements for this is a prudential statistical component that does not allow to allocate the outcomes calculated by the Supervisory Authority to any specific position. In this respect, it should be pointed out that in 2014 the bank already undertook actions that, through the prudential strengthening of the internal policies governing the allocation of positions to the categories representing Non Performing Loans and the way these are assessed, lead to a higher coverage of Non Performing Loans, as shown below.

As for the Collective provision analysis, the ECB indicated a potential impact of € 78,2 million, of which € 22.6 million arising from Performing Loans and € 55.6 million from Non Performing

Loans. The prudential criteria applied during the AQR through the so-called Collective Challenger Model differ from the IAS/IFRS adopted by the Group: the value reported in the AQR outcome also does not benefit from the compensation between coverage surplus and deficit for the different portfolio categories with regard to Performing Loans, a case envisaged by the Supervisory rules which however is not allowed under the AQR method. More specifically, the deficit highlighted in a number of portfolios subject to the AQR, as reported in the results published on 26 October past, based on the details provided by the ECB, proved well compensated by the write-down surplus allocated to other portfolios. Nonetheless, in order to make the assessment procedure consistent with the classification of loans adopted by the ECB, in 2015 the bank intends to carry out a review of how to allocate collective value adjustments on Performing Loans to the different sub-portfolios with a similar risk; such action should not imply any accounting impact during the year since, as specified above, the overall adjustment amounts proved adequate.

With regard to the collective assessment of Non Performing Loans, the actions undertaken on internal regulations, together with the periodic adjustment process of analytical estimates and evaluation parameters made by the bank in 2014, enabled to increase the value adjustment amounts on Non Performing Loans, thus increasing the coverage compared with 31 December 2013. Indeed, the overall coverage ratio of Non Performing portfolio grew from 39.2% at 31 December 2013 to 43.2% at the end of 2014.

With regard to the outcome of the Fair Value Review of financial instruments, it should be noted that no accounting impact was seen nor any adjustments were requested as a result of the Comprehensive Assessment exercise.

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STATEMENT

The executive in charge of preparing the bank's accounting documents, Mr Maurizio Bertoletti, represents that pursuant to article 154 *bis* , paragraph 2 of the Finance Consolidated Act, the accounting information set out herein match the data entered in the books and the accounts.

Signed by: Maurizio Bertoletti, Executive responsible for preparing the bank's accounting documents
Company contacts:
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paolo.lorenzini@popso.it; bank internet site "www.popso.it".
Sondrio, 10 February 2015

Attachments:
Consolidated Balance Sheet and Income Statement.

CONSOLIDATED BALANCE SHEET (in euro thousands)

Item	ASSETS	31/12/2014	31/12/2013
10.	Cash and cash on hand	264,482	196,517
20.	Financial assets held for trading	2,338,630	3,154,594
30.	Financial assets carried at fair value	84,702	79,226
40.	Financial assets held for sale	6,498,605	3,375,500
50.	Financial assets held to maturity	148,620	182,621
60.	Loans to banks	1,088,388	733,954
70.	Loans to customers	24,011,295	23,904,559
80.	Hedging derivatives		2,923
100.	Investments	155,986	156,404
120.	Tangible assets	254,303	245,962
130.	Intangible assets of which: Goodwill	21,572 7,847	21,865 8,959
140.	TAX ASSETS *a)* current *b)* anticipated *b1)* of which as per Law 214/2011	403,851 10,691 393,160 346,451	342,310 33,478 308,832 269,858
160	OTHER ASSETS	347,783	373,493
	TOTAL ASSETS	**35,618,847**	**32,769,928**

Item	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2014	31/12/2013
10.	DUE TO BANKS	2,314,035	3,067,978
20.	DUE TO CUSTOMERS	26,310,842	23,710,352
30.	DEBT SECURITIES IN ISSUE	3,406,198	2,964,974
40.	FINANCIAL LIABILITIES FROM TRADING	56,136	36,550
60.	HEDGING DERIVATIVES	45,562	27,580
80.	TAX LIABILITIES of which: *c)* current *d)* deferred	61,778 2,104 59,674	36,889 662 36,227
100.	OTHER LIABILITIES	722,835	720,873
110.	SEVERANCE INDEMNITY PROVISION	44,915	40,527
120.	PROVISIONS FOR RISKS AND CHARGES *a)* post-employment benefits *b)* other provisions	166,849 117,043 49,806	152,593 100,539 52,054
140.	VALUATION RESERVES	47,941	16,782
170.	RESERVES	829,959	794,781
180.	SHARE PREMIUM RESERVE	79,005	171,450
190.	SHARE CAPITAL	1,360,157	924,444
200.	TREASURY STOCKS (-)	(25,031)	(24,316)
210.	MINORITY INTERESTS	82,463	75,438
220.	PROFIT (LOSS) FOR THE PERIOD (+/-)	115,203	53,033
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**35,618,847**	**32,769,928**

CONSOLIDATED INCOME STATEMENT

(in euro thousands)

Item		31/12/2014	31/12/2013
10.	INTEREST INCOME AND SIMILAR REVENUES	959,077	1,018,114
20.	INTEREST EXPENSES AND SIMILAR CHARGES	(368,154)	(458,952)
30.	**INTEREST MARGIN**	**590,923**	**559,162**
40.	COMMISSION INCOME	322,022	305,579
50.	COMMISSION EXPENSES	(22,001)	(22,578)
60.	**NET COMMISSIONS**	**300,021**	**283,001**
70.	DIVIDENDS AND SIMILAR INCOME	3,524	2,699
80.	NET TRADING INCOME	99,818	111,055
90.	NET HEDGING GAINS (LOSSES)	129	(45)
100.	PROFIT (LOSS) FROM TRANSFER OR REPURCHASE OF:	94,154	52,720
	a) loans		
	b) financial assets available for sale	95,505	52,518
	c) financial assets held to maturity		55
	d) financial liabilities	(1,351)	147
110.	NET RESULT OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	5,187	5,387
120.	**INTERMEDIATION MARGIN**	**1,093,756**	**1,013,979**
130.	NET IMPAIRMENT ADJUSTMENTS TO:	(481,895)	(490,285)
	a) loans	(464,084)	(463,866)
	b) financial assets available for sale	(19,308)	(12,881)
	c) financial assets held to maturity		
	d) other financial transactions	1,497	(13,538)
140.	**NET RESULT OF FINANCIAL OPERATIONS**	**611,861**	**523,694**
170.	**NET RESULT OF FINANCIAL AND INSURANCE OPERATIONS**	**611,861**	**523,694**
180.	ADMINISTRATION EXPENSES:	(457.273)	(441,175)
	a) staff costs	(223,125)	(219,088)
	b) other administration expenses	(234,148)	(222,07)
190.	NET PROVISIONS FOR RISK AND CHARGES	1,934	(2,850)
200.	NET ADJUSTMENTS TO TANGIBLE ASSETS	(17,037)	(17,056)

210.	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(13,357)	(12,360)
220.	OTHER OPERATING INCOME/CHARGES	73,849	73,465
230.	**OPERATING COSTS**	**(411,884)**	**(399,976)**
240.	PROFIT (LOSS) FROM EQUITY INVESTMENTS	6,715	1,620
260.	IMPAIRMENT OF GOODWILL	(1,112)	0
270.	PROFIT (LOSS) FROM DIVESTITURES	27	10
280.	**PROFIT (LOSS) FROM CURRENT OPERATIONS, GROSS OF TAXES**	**205,607**	**125,348**
290.	INCOME TAX FOR THE YEAR FROM CURRENT OPERATIONS	(80,325)	(64,671)
300.	**PROFIT (LOSS) FROM CURRENT OPERATIONS, NET OF TAX**	**125,282**	**60,677**
320.	**PROFIT (LOSS) FOR THE PERIOD**	**125,282**	**60,677**
330.	PROFIT (LOSS) FOR THE PERIOD PERTAINING TO MINORITY INTERESTS	(10,079)	(7,644)
340.	**PROFIT (LOSS) FOR THE PERIOD PERTAINING TO THE PARENT BANK**	**115,203**	**53,033**