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 May 11, 2018: approval of the Consolidated Interim Financial report as of March 31, 2018.

Today, the Board of Directors of Banca Popolare di Sondrio, cooperative joint stock company, examined and approved the interim financial report as of March 31, 2018.

– **The net profit, stemming solely from ordinary business, amounted to € 42.8 million and shows an increase of 45.1% compared to the same period last year. The net profit was hit by € 17 million in costs related to contributions to the Resolution Fund and to the Interbank Deposit Protection Fund.**

– **Direct funding from customers amounted to € 31,240 million, down 1.3%.**

– **Net loans to customers total € 25,876 million, plus 0.7%.**

– **New disbursements to households and businesses for around € 1 billion.**

– **On May 3 BPS signed the purchase agreement of 100% of share capital of PrestiNuova Spa, a company active in the granting of loans guaranteed by the transfer of up to one fifth of the salary or pension as well as in the payment delegation.**

– **Asset management amounted to € 5,513 million euros.**

- **Net fees and commissions totalled € 76.290 million increasing 3.8%**

- **Net adjustments of loans to customers fell by 33.9%.**

- **The cost of credit is 0.52% down from 0.90%.**

- **In addition to the already considerable values at the end of 2017 and without significant adjustments at the FTA level of IFRS9, the level of coverage of non-performing loans, calculated on total impaired loans, rose from 51.8% to 52.4%. Bad loans are covered at 67.6% (76.1% if we include the amounts transferred to the income statement from previous years).**

- **The indicators of incidence of impaired loans are maintained on good levels, in comparison with the system data. In particular, the ratio between total non-performing loans and total customer loans are respectively the gross one (so-called gross NPL ratio), 15.05% from 15.07%, and the net one at 7.81% from 7. 93% of the comparison period.**

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

    - **CET1 Ratio phased in from 11.60% to 11.72%; fully phased at 11.60%.**

    - **Total Capital Ratio phased in from 13.66% to 13.63%; fully phased at 13.41%.**

- **The Texas ratio, the ratio of total net impaired loans to tangible equity, improved further, to 75.72% from 77.99%.**

- **Phased-in Leverage Ratio of 5.83%; fully phased of 5.76%.**

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

The comparative economic data referring to 31/03/2017 are shown without variations with respect to the values determined in application of the accounting standards applicable at the time. Therefore, they cannot be compared on the same basis with those referred to 31/03/2018 which reflect the application of IFRS 9 from 1 January 2018.

The balance sheet figures for the comparison period referring to 31/12/2017 have been restated by incorporating the changes made to the FTA deriving from the application of the international accounting standards that came into force on January 1st of the current year.

Accounting data (in millions of Euro):

	31/03/2018	31/03/2017	Variation
Net interest income	120.2	117.6	+ 2.2%
Net fees and commissions	76.3	73.5	+ 3.8%
Total result from securities	14.3	34.5	- 58.6%
Total income	211.3	226.0	- 6.5%
Adjustments to loans and financial activities	29.3	58.6	- 50%
Operating costs	130.3	125	+4.3%
Pre-tax profit on continuing operations	55.9	46	+ 21.4%
Net profit	42.8	29.5	+ 45.1%

	31/03/2018	31/12/2017	Variation
Direct funding from customers	31,240	31,634	- 1.25%
Indirect funding from customers	30,461	30,119	+ 1.1%
Insurance funding from customers	1,364	1,336	+ 2.1%
Total customer funding	63,065	63,088	- 0.1%
Cash loans to customers	25,876	25,696	+ 0.7%

Banca Popolare di Sondrio Banking Group currently consists 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 (controlled 60%).

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 € 42.8 million, up by 45.1% compared to € 29.5 million in the first three months of 2017.

Direct deposits amounted to € 31,240 million, down 1.3% on 31 December 2017. Indirect deposits amounted to € 30,461 million, up 1.1% on 31 December 2017, and insurance deposits amount € 1,364 million, plus 2.1% on 31 December 2017. Total customer deposits therefore stood at € 63,065 million, minus 0.04% on 31 December 2017.

Loans to customers amounted to € 25,876 million, plus 0.7% on the end-2017 figure adjusted for FTA in IFRS 9. Net impaired loans stood at € 2,022 million, down 0.7%, and represent 7.81 % of total loans compared to 7.93% at the end of 2017, with a coverage of 52.42% compared to 51.79% at 31 December 2017. In the context of impaired loans, net bad loans amounted to € 766 million, up 2.6%, the percentage of total loans to customers remain stable at 2.96%. The degree of coverage of bad loans is 67.62% compared to 67.57% at 31 December 2017. If the amounts taken to the income statement in previous years are taken into account, the coverage of these loans stands at 76.11%. Unlikely to pay exposures amounted to € 1,139 million, down 1.4%, with a 35% coverage ratio and a 4.40% impact on total loans, while impaired past due and / or overdrawn exposures amounted to € 116 million, minus 13.7%, with a coverage ratio of 10.83% and an impact on total loans of 0.45%. The results shown were achieved, in line with the consolidated management of impaired loans, without extraordinary transactions, such as securitization and sales of NPL.

Financial assets, represented by proprietary securities and derivatives, amounted to € 12,036 million, minus 1.3% on 31 December 2017. Investments totalled € 222 million, up 2.2%, an increase essentially attributable to the effect of valuation by the net equity method.

As of March 31, 2018, short-term **liquidity** indicators (LCR-Liquidity Coverage Ratio) and medium/long-term indicators (NSFR-Net Stable Funding Ratio) are both largely above the minimum requirement for 2018 (100%).

With regard to the components of the consolidated income statement, compared with the results as of 31 March 2017, the **interest margin** amounted to € 120.2 million, up 2.2% compared to € 117.6 million in the comparative period. The new methods for accounting for accrued interest on impaired financial assets had limited influence on the total amount of the interest margin.

Net fee and commission income showed a positive trend, amounting to € 76.3 million, + 3.8%, in particular thanks to the good performance of those deriving from the placement of managed and insurance savings products, as well as those linked to the accounts. currents, loans and collection and payment services.

The overall **result of securities, exchange and derivatives business** (which is the sum of the items 80, 90, 100 and 110 of the income statement) was € 14.3 million, down by 58.6% compared to the € 34.5 million in the comparison period.

The **total income** therefore fell to € 211.3 million, down 6.5% compared to the first three months of 2017.

Net adjustments and write-backs for credit risk, item 130 of the income statement, amounted to € 29.3 million, a decrease of 50% compared to € 58.6 million in the first quarter of 2017. The component consisting of net value adjustments for credit risk relating to financial assets measured at amortized cost, which refer to exposures towards customers and banks in the form of loans and securities, amounted to € 31.8 million. The adjustments to loans to customers represented by loans only, aggregate which constitutes the most significant part of the item being commented, amounted to € 32.8 million. This amount, if compared with the same period of the previous year referring to loans to customers, although not homogeneous due to the different methods of recognition between IFRS9 and IAS39, shows a significant reduction in adjustments. Although the new impairment model for the valuation of receivables measured at amortized cost and the approach to the calculation of write-downs are more conservative under the new accounting regime, the figure shown demonstrates a significant improvement in the credit quality of the portfolio.
The component net impairment losses on financial assets measured at fair value with an impact on total profitability recorded write-backs of € 2.5 million on debt securities, while in the comparison exercise on the impairment adjustments component of financial assets available for sale, adjustments were recorded for € 7.7 million, which largely concerned the write-downs of the shares held in the Atlante Fund.
Item 140 of the income statement, which recognizes gains / losses from contractual changes without cancellations, deriving from the changes made to contractual cash flows, recorded losses for € 0.9 million in the reference period.
The ratio between net adjustments to loans to customers, also including the adjustments shown in line item 140 of the income statement, as mentioned above, and the loans to customers themselves, the so-called cost of credit, showed a strong improvement, standing at 0.52% from 0.90% on 31 December 2017.

The net result from financial management amounted to € 181.1 million, up 8.2%.

Operating costs amounted to € 130.3 million, + 4.3%, partly attributable to physiological factors and partially attributable to the increase in consulting costs and IT costs.
The ratio between operating costs and total income, the so-called 'cost income ratio', therefore stood at 61.6%, from 50% at the end of 2017, reflecting the reduction of the margin itself.
Analyzing the individual cost items, the administrative costs, for which a reclassification was made regarding the provisions of the retirement fund, amounted to € 141.2 million, + 5.4%; the personnel expenses component rose to € 59.8 million, + 1.6%. In their turn, other administrative expenses increased from € 75.1 million to € 81.4 million, up 8.4%. This aggregate item includes an estimate of the burden related to ordinary contributions to be paid to the National Resolution Fund and to the Interbank Deposit Protection Fund for a total of € 17 million. In addition, the recurring increase in consultancy expenses and the IT costs linked to the constantly evolving regulations also had an impact.
The item of net provisions for risks and charges showed releases of funds for € 3.1 million, compared to a release of € 0.9 million in the same 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).
The adjustments to tangible and intangible assets amounted to € 7.4 million, + 0.7%.
Other operating income, after deducting costs, amounts to € 15.2 million, down by 1.6%.

The **result from operation management** therefore rose to € 50.9 million, + 19.8%.

The item **profits/losses** on investments and other investments showed a positive balance of € 5.0 million, + 39.8% compared to € 3.6 million in the comparative period.

The **total result before taxes** therefore amounted to € 55.9 million, + 21.4%.
Finally, the **income taxes**, equal to € 12.1 million, -19.6%, and the profit attributable to minority interests of € 1 million, led to a net profit of € 42.8 million, + 45.1%.

The **rate of taxation**, to be understood as a simple ratio between income taxes and the result of current operations, stood at 21.6%, compared to 32.6% in the comparative period.

Consolidated own funds, including profit for the period, amounted to € 2,695 million at March 31, 2018, with an increase of € 61 million compared to assets at December 31, 2017, negatively rectified for € 45 million at FTA IFRS 9.

Consolidated own funds as at March 31, 2018 amount to € 3,083 million.

The **capital ratios** as at 31 March 2018, calculated on the basis of 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. The CET1 Ratio, the Tier1 Ratio and the Total Capital Ratio are positioned (under Phased in) on percentage values of 11.72%, 11.76% and 13.63% respectively. The data presented take into account the portion of profit for the period, to an extent consistent with the dividend policy usually followed by the Group, although the balance sheet and income statement as of 31st March 2018 have not been subject to limited audit activities and, therefore, no application was filed with the ECB for the inclusion of the profit in the primary capital of class 1. These values, net of the portion of the profit for the period, amounted respectively to 11.57%, to 11.60 % and at 13.47.
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 at March 31, 2018 is equal to 5.83% applying the transitional criteria in effect for 2018 (phased in) and 5.76% based on the criteria established at full regime (fully phased).
The **Group staff** amounted to 3,206 units, whereas at the end of 2017 totalled 3,199 units.

The Shareholders' base is currently constituted of 173,761 members.

As disclosed to the market through a press release dated 3 May, to which reference is made, the Parent Company has signed a contract with Banca Popolare di Vicenza Spa in compulsory administrative liquidation, which provides for the acquisition by the Banca Popolare di Sondrio of 100% of the share capital of PrestiNuova Spa.

Whit regard to the foreseeable evolution, it is legitimate to expect, also in consideration of the positive economic moment, an improvement both of the interest margin and of the commission income and of credit quality.

As far as financial markets are concerned, there are factors of uncertainty at national and international level. The result of the activity in securities depends, in particular, on their performance.
Without prejudice to unpredictable events, in particular related to the aforementioned uncertainties on the markets, it is reasonable to envisage the continuation of the process of improving in the Group's profitability.

COMPARISON DATA

In the attached accounting schedules, the balance sheet figures for the comparative period, referring to 31/12/2017, and the economic data referring to 31/03/2017 were simply restated using the financial 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 31 March 2017, which do not include the effects deriving from the application of IFRS 9, are not comparable on a consistent basis with those of the comparison periods.

The interim management report as of March 31, 2018 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 headquarters of the bank.

****

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

For enquiries:
Paolo Lorenzini, Head of External Relations; telephone +39.0342.528.212; e-mail paolo.lorenzini@popso.it ; website www.popso.it .

Sondrio, 11 May 2018

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

Assets	31/03/2018	31/12/2017
10. Cash and cash equivalents	1,266,717	699,379
20. Financial assets at fair value through profit or loss	855,874	895,245
a) financial assets held for trading	325,689	372,542
b) financial assets designed at fair value	-	
c) financial assets mandatorily at fair value through profit or loss	530,185	522,703
30. Financial assets at fair value through other comprehensive income	6,424,754	6,886,971
40. Financial assets at amortised cost	31,607,661	31,787,099
a) loans and receivables with banks	976,120	1,927,176
b) loans and receivables with customers	30,631,541	29,859,923
50. Hedging derivatives		
70. Equity investments	222,446	217,634
90. Property, equipment and investment property	325,841	327,490
100. Intangible assets	24,912	23,720
of which:		
- goodwill	7,847	7,847
110. Tax assets	446,889	435,064
a) current	43,188	49,618
b) deferred	403,701	385,446
130. Other assets	416,570	352,052
Total assets	**41,591,664**	**41,624,654**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Liability and Equity	31/03/2018	31/12/2017
10. Financial liabilities at amortised cost	37,540,829	37,839,119
a) due to banks	6,300,852	6,204,835
b) due to customers	28,448,882	28,800,925
c) securities issued	2,791,095	2,833,359
20. Financial liabilities held for trading	34,807	31,259
30. Financial liabilities designated at fair value		
40. Hedging derivatives	20,647	22,468
60. Tax liabilities	46,637	38,855
a) current	899	2,705
b) deferred	45,738	36,150
80. Other liabilities	876,476	643,520
90. Post-employment benefits	45,361	45,491
100. Provisions for risks and charges:	239,011	234,429
a) loans commitments and financial guarantees given	30,224	30,152
b) pensions and similar obligations	161,177	160,799
c) other provisions	47,610	43,478
120. Valuation reserves	57,383	28,478
150. Reserves	1,180,686	1,077,440
160. Share premium	79,005	79,005
170. Share capital	1,360,157	1,360,157
180. Treasury shares (-)	(25,387)	(25,370)
190. Equity attributable to minority interests	93,243	90,593
200. Profit for the period	42,809	159,210
Total liabilities and equity	**41,591,664**	**41,624,654**

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	31/03/2018	31/03/2017
10. Interest and similar income	149,810	153,297
20. Interest and similar expense	(29,582)	(35,681)
30. Net interest income	**120,228**	**117,616**
40. Fee and commission income	80,928	78,094
50. Fee and commission expense	(4,638)	(4,600)
60. Net fee and commission income	**76,290**	**73,494**
70. Dividends and similar income	551	443
80. Net trading income	11,343	22,519
90. Net hedging income	(13)	(50)
100. Net gains from sales or repurchases of:	4,759	5,916
a) financial assets at amortised cost	1,221	
b) financial assets at fair value through other comprehensive income	3,586	5,958
c) financial liabilities	(48)	(42)
110. Net gains on financial assets and liabilities at fair value through profit or loss	(1,823)	6,100
a) financial assets and liabilities designated at fair value		6,100
b) other financial assets mandatorily at fair value	(1,823)	
120. Total income	**211,335**	**226,038**
130. Net impairment losses on:	(29,295)	(58,594)
a) financial assets at amortised cost	(31,806)	(50,938)
b) financial assets at fair value through other comprehensive income	2,511	(7,656)
140. Net gains from contractual changes without derecognition	(871)	
150. Net financial income	**181,169**	**167,444**
180. Net financial income and insurance income	**181,169**	**167,444**
190. Administrative expenses:	(142,086)	(136,044)
a) personnel expenses	(60,721)	(60,972)
b) other administrative expenses	(81,365)	(75,072)
200. Net accruals to provisions for risks and charges	3,110	906
a) loans commitments and financial guarantees given	3,860	406
b) other net accruals	(750)	500
210. Depreciation and net impairment losses on property, equipment and investment property	(4,226)	(4,358)
220. Amortisation and net impairment losses on intangible assets	(3,182)	(3,000)
230. Other net operating income	16,110	17,538
240. Operating costs	**(130,274)**	**(124,958)**
250. Share of profits of investees	5,016	3,594
280. Net gains on sales of investments	11	2
290. Pre-tax profit from continuing operations	**55,922**	**46,082**
300. Income taxes	(12,072)	(15,023)
310. Post-tax profit from continuing operations	**43,850**	**31,059**
330. Net profit (loss) for the period	**43,850**	**31,059**
340. Net profit (loss) of the period attributable to minority interests	(1,041)	(1,557)
350. Net profit (loss) for the period attributable to the owners of Parent bank	**42,809**	**29,502**