Banca Popolare di Sondrio

Società cooperativa per azioni – founded in 1871
Head office: Piazza Garibaldi 16, 23100 Sondrio, Italy
Sondrio Companies Register no. 00053810149.
Official List of Banks no. 842.
Parent Bank of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0.
Official List of Cooperative Banks no. A160536.
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
At 31/12/2015: Share capital: € 1,360,157,331 - Reserves: € 942,519,617
(figures approved at the shareholders' meeting held on 23/4/2016)

BOARD OF DIRECTORS OF 8th NOVEMBER 2016:

APPROVAL OF THE INTERIM CONSOLIDATED RESULTS AS AT 30th SEPTEMBER 2016.

CALLING OF THE SHAREHOLDERS' GENERAL MEETING FOR THE TRANSFORMATION OF BANCA POPOLARE DI SONDRIO, COOPERATIVE JOINT STOCK COMPANY, INTO A JOINT STOCK COMPANY (BORMIO – 17th DECEMBER 2016)

Good profitability. In a context of contraction in net interest income there was a significant deceleration in the trend of non-performing loans.

New loans to households and businesses amounted to nearly € 2 billion.

Consolidated net profit of € 105.252 million, also this year without extraordinary contribution, -21.82% compared to the same period of 2015, which recorded a particularly favorable trend in financial and stock markets.

The net impairment losses on loans fell by almost a third, -30.63%. The cost of credit is considerably coming down, year on year, from 1.37% to 0.95%.

The growth of non-performing loans stopped, while the relative degree of coverage rose to 45.87%. The coverage ratio on bad loans stood at 62.94%, among the highest at the system level.

A continuous improvement of the capital base through self-financing:

- **CET1 Ratio: 11.22%**
- **Total Capital Ratio: 13.83%**

and a very comfortable liquidity position:

- **LCR and NSFR values above 100%**

together with a moderate level of leverage:

- **Leverage Ratio at 6.47%.**

Increase in staff: 132 new hires in the last 12 months.

Calling of the Extraordinary General Meeting to approve on 17th December 2016 in order to approve the transformation of the Banca Popolare di Sondrio, cooperative joint stock company, into a joint stock company.

Today, the Board of Directors of Banca Popolare di Sondrio, cooperative joint stock company, has reviewed and approved the consolidated interim financial report as at 30th September 2016. Following the amendments made by Legislative Decree n. 15 February 2016 n. 25 the disclosure requirements relating to the first and third trimesters required by art. 154-ter of Legislative Decree no. 58/1998 (TUF) are no longer valid. Notwithstanding this, it was felt to privilege notifying the market in continuity with the past.

The **consolidated net profit** for the first nine months of the year amounted to € 105.252 million, minus 21.82% compared to 30th September 2015. The decrease is explained by the fact that the beginning of 2015 was characterized by an extremely favorable situation of financial and stock markets, which, thanks to good operations in the sector, had enabled the achievement of substantial profits from trading / sales of securities. The result for the period is also penalized by the expenses related to the ordinary contribution paid into the Resolution Fund, referred to the whole 2016, which amounted to € 11.170 million, and by an estimate, equal to € 4.200 million, of the expected contribution to the Deposit Guarantee Scheme.

Direct deposits stood at € 28,807 million, minus 2.44% compared to 31st December 2015, minus 2.62% year-on-year**. Indirect deposits**, at market value, amounted to € 26,926 million, minus 4.64% on 31st December 2015, **insurance deposits** totaled € 1,274 million, plus 15.85% on 31st December 2015. **Total customer deposits** therefore amounted to € 57,007 million, minus 3.16%.

Loans to customers amounted to € 24,396 million, plus 1.67% when compared to the 23,997 million of year-end and back, on an annual basis, to the same level of 30th September 2015. **Non performing exposures**, virtually unchanged, amounted to € 2,357 million, minus 0.22%, and account for 9.66% of total loans, with a coverage of 45.87% compared to 44.47% at 31st December 2015.
The trend of non-performing loans is characterized by growth rates close to zero, reinforcing the positive tendency already seen in the previous quarter.
As part of non performing exposures, **net bad loans** stood at € 766 million, plus 4.30%, and constitute 3.14% of customer loans compared to 3.06% at 31 December 2015. The level of bad loans coverage is 62.94%, compared to 61.89% at 31st December 2015. The coverage ratio is confirmed among the highest at the system level. **Unlikely to pay exposures** amounted to 1,341 million, plus 10.84% , with a degree of coverage of 32.76%, while past due loans and/or impaired overdue totaled 250 million, minus 40.15%.

Financial assets, represented by securities and derivatives, decreased to € 7,940 million, minus 5.48% on 31st December 2015 and is made in good part by government bonds. It is also been included as financial asset the contribution of € 4.096 million paid to FITD - voluntary scheme for the deliberate action by the latter in support of the Cassa di Risparmio di Cesena. Equity investments add up € 206 million, plus 4.10%, mainly due to the effect of the increase in equity valuations.

At 30th September 2016 the short-term **liquidity** indicators (LCR-Liquidity Coverage Ratio) and the medium to long term (NSFR-Net Stable Funding Ratio) stood at values above 100% whereas the minimum requirements for 2016 and for 2019 are 70% and 100% respectively.

With regard to the components of the consolidated statement of income, compared with the results as at 30th September 2015, there was a further reduction in net interest income which stood at € 362.887 million, minus 12.18%, with a decrease of active interests in excess of that recorded by passive interests.

Net commission income from services totaled € 213.717 million, minus 4.28%.

Net income of the **management of securities portfolio and foreign exchange** was € 74.042 million, minus 52.52% and it is a respectable result albeit lower than in the same period of last year, which benefited from a very favorable situation on the financial and stock markets and, consequently, substantial profits and gains.

Dividends amounted to 6.329 million compared to 2.663 million.

Gross operating income amounted to € 656.975 million, minus 17.37%, a reduction to which, in addition to the decline in net interest income, contributed the decline in profits from financial activities and commissions.

Net adjustments for impairment, as always the result of the application of particularly prudent corporate policies, showed a further reduction compared to the same period of last year, following a trend already noted during the year, and stood at € 177.167 million minus 34.24%.
Adjustments to loans to customers fell from 250.034 million to 173.441 million, minus 30.63%. Consequently, the cost of credit showed a strong improvement, coming down from 1.37% at 30 September 2015, and from 1.63% at the end of 2015, to 0.95%. Adjustments to financial assets available for sale amounted to 4.177 million compared to 8.111 million.

The net result from **financial operations** amounted to € 479.808 million, minus 8.72%.

Total operating costs, calculated as the sum of administrative expenses, provisions, depreciation on tangible and intangible assets, plus the balance of “other net operating income” amounted to € 342.570 million, plus 5.30%. The component of administrative expenses, for which steps were taken to a reclassification of the provision of the employees’ pension fund that are offset in other operating income, stood at € 367.402 million, plus 3.89%, of which € 172.228 million, minus 0.07%, related to personnel expenses, and € 195.174 million, plus 7.65%, related to other administrative expenses, inclusive of 15.370 million for the contribution paid to the Resolution Fund and that provided for the FITD. The cost/ income ratio rose from 40.92% to 52.14%. The ratio, which is still on a satisfactory level, increased mirroring the higher level of operating costs but, above all, the simultaneous reduction in margins.

Gains from equity investments and other investments amounted to € 10.091 million, compared to € 6.003 million.

The current operating income amounted therefore to € 147.329 million, minus 28.60%. After deducting **income taxes**, amounting to € 41.306 million, minus 38.00%, and the profit attributable to minority interests, € 0.771 million, the net consolidated profit for the period reaches € 105.252 million as mentioned above, minus 21.82%.

Consolidated own funds as at 30th September 2016 amounted to € 2,607 million, including the share of profit for the period, plus 1.74% when compare to 31st December 2015.
Consolidated own funds for supervisory purposes as at 30th September 2016 amounted to € 3,160 million, including the share of profit for the period.

The **capital ratios** as at 30th September 2016, calculated on the basis of the own funds as set out above, strengthened. More specifically, the CET1 ratio, the Tier 1 Ratio and Total Capital Ratio stood (on a Phased-in basis) at 11.22%, 11.25% and 13.83% respectively. These ratios do not benefit from the validation of internal rating models for credit risk, as the relating activities are still under way.

The **leverage ratio** as at 30th September 2016, which stood at 6.47% by applying the transitional criteria in force for 2016 (phased-in), is in line with the average values of the system.

The Group's **branch network** consists of 354 branches.

At 30th September 2016, the Banking group had 3,143 employees, an increase of 31 staff units compared to the 31st December 2015 and of 44 in the last 12 months. Adding the 27 employees of the subsidiary Pirovano Stelvio spa, of which 24 seasonal, the total number of Group employees reached 3,170.

The **shareholding base** is now composed of 182,797 members.

As for the outlook, it is to be put into account the continuation of the monetary policy pursued by the ECB until now, resulting in the persistence of rates at current levels, if not lower.
It must be understood the negative impact on net interest income, possibly offset from a further improvement in credit quality and also from activities on the financial markets which, in the absence of new unpredictable turbulence, will contribute positively to operating profits.
Overall, it is reasonable to expect for our Group a trend in the latter part of the year in line with that seen as at 30th September, provided that the difficulties in the process of alienation of the 4 banks under administration by the National Resolution Fund do not result in an additional onerous extraordinary intervention.

The consolidated interim report on operations as at 30th September 2016 will be published on the company website "www.popso.it" and deposited in authorized storage mechanism eMarket Storage "www.emarketstorage.com" and at the head office of the bank.

The Board of Directors also resolved to call the Extraordinary General Meeting in order to approve, among other things, the transformation of the Banca Popolare di Sondrio, cooperative society, into a joint stock company and the subsequent adoption of a new statute.
The Meeting will take place in first call on 16th December 2016 at 10.00 am, at the head office in Sondrio, Piazza Garibaldi 16, and on second call on Saturday **17th December 2016** at 10.30 am, in Bormio (SO), at the multipurpose center "Pentagono", via Manzoni 22.

The complete notice of the Extraordinary General Meeting and the supplementary documents - in particular an indication of the liquidation value of the shares of Banca Popolare di Sondrio eventually being withdrawn - will be published on specific press releases and made available within the time required by law.

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DECLARATION

The Financial Reporting Officer, Maurizio Bertoletti, certifies, pursuant to paragraph 2 of Article 154 bis of the Consolidated Finance Law, that the accounting information contained in this press release agrees with the underlying documents, registers and accounting entries.

Signed: Maurizio Bertoletti, manager responsible for preparing corporate accounting documents

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Sondrio, 8th November 2016

Appendices:
Consolidated statement of financial position and income statement.

The English translation is provided solely for information purposes for the benefit of the reader given that, where there is a discrepancy, the Italian version will prevail.

CONSOLIDATED ACCOUNTING REPORTS AS AT 30th SEPTEMBER 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

Assets	30/09/2016	31/12/2015
10. Cash and cash equivalents	739,679	766,097
20. Financial assets held for trading	1,331,902	1,859,435
30. Financial assets at fair value through profit or loss	92,920	94,495
40. Available-for-sale financial assets	6,405,570	6,321,023
50. Held-to-maturity investments	109,808	125,777
60. Loans and receivables with banks	978,525	980,339
70. Loans and receivables with customers	24,396,293	23,996,543
80. Hedging derivatives	-	-
100. Equity investments	206,297	198,176
120. Property, equipment and investment property	322,995	324,180
130. Intangible assets	23,886	22,246
of which:		
- goodwill	7,847	7,847
140. Tax assets	418,895	491,938
a) current	3,988	64,592
b) deferred	414,907	427,346
b1) of which as per Law 214/2011	366,232	379,570
160. Other assets	391,292	357,399
Total assets	**35,418,062**	**35,537,648**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Liability and Equity	30/09/2016	31/12/2015
10. Due to banks	2,548,941	2,302,136
20. Due to customers	25,310,414	26,347,209
30. Securities issued	3,496,936	3,181,186
40. Financial liabilities held for trading	58,598	48,709
60. Hedging derivatives	46,975	53,483
80. Tax liabilities	56,359	68,208
a) current	3,850	4,059
b) deferred	52,509	64,149
100. Other liabilities	985,394	678,166
110. Post-employment benefits	46,435	43,374
120. Provisions for risks and charges:	176,396	165,725
a) pensions and similar obligations	131,415	117,912
b) other provisions	44,981	47,813
140. Valuation reserves	58,738	89,416
170. Reserves	1,029,697	930,273
180. Share premium	79,005	79,005
190. Share capital	1,360,157	1,360,157
200. Treasury shares (-)	(25,349)	(25,322)
210. Equity attributable to minority interests	84,114	86,623
220. Profit for the period	105,252	129,300
Total liabilities and equity	**35,418,062**	**35,537,648**

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	30/09/2016	30/09/2015
10. Interest and similar income	500,617	610,612
20. Interest and similar expense	(137,730)	(197,395)
30. Net interest income	**362,887**	**413,217**
40. Fee and commission income	227,613	239,155
50. Fee and commission expense	(13,896)	(15,891)
60. Net fee and commission income	**213,717**	**223,264**
70. Dividends and similar income	6,329	2,663
80. Net trading income	8,009	60,696
90. Net hedging income	240	(138)
100. Net gains from sales or repurchases of:	66,964	93,095
a) loans and receivables	-	-
b) available-for-sale financial assets	67,625	94,052
c) held-to-maturity instruments	-	-
d) financial liabilities	(661)	(957)
110. Net gains on financial assets and liabilities at fair value through profit or loss	(1,171)	2,277
120. Total income	**656,975**	**795,074**
130. Net impairment losses on:	(177,167)	(269,418)
a) loans and receivables	(173,441)	(250,034)
b) available-for-sale financial assets	(4,177)	(8,111)
c) held-to-maturity instruments	-	(7,665)
d) other financial transactions	451	(3,608)
140. Net financial income	**479,808**	**525,656**
150. Net insurance premiums	-	-
160. Other net insurance income (expense)	-	-
170. Net financial income and insurance income	**479,808**	**525,656**
180. Administrative expenses:	(370,204)	(355,973)
a) personnel expenses	(175,030)	(174,664)
b) other administrative expenses	(195,174)	(181,309)
190. Net accruals to provisions for risks and charges	(796)	(4,608)
200. Depreciation and net impairment losses on property, equipment and investment property	(13,743)	(13,382)
210. Amortisation and net impairment losses on intangible assets	(10,182)	(9,833)
220. Other net operating income	52,355	58,470
230. Operating costs	**(342,570)**	**(325,326)**
240. Share of profits of investees	9,898	6,455
250. Net fair value losses on property, equipment and intangible assets measured at fair value	160	(458)
260. Goodwill impairment losses	-	-
270. Net gains on sales of investments	33	6
280. Pre-tax profit from continuing operations	**147,329**	**206,333**
290. Income taxes	(41,306)	(66,626)
300. Post-tax profit from continuing operations	**106,023**	**139,707**
310. Post-tax profit (loss) from discontinued operations	-	-
320. Net profit (loss) for the period	**106,023**	**139,707**
330. Net profit (loss) of the period attributable to minority interests	(771)	(5,079)
340. Net profit (loss) for the period attributable to the owners of Parent bank	**105,252**	**134,628**