



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

9 November 2017: Board of Directors' approval of interim consolidated results at 30 September 2017.

GROWING PROFITABILITY AND GOOD CREDIT QUALITY

- Net profit of € 112.341 million, + 6.74% compared to the same period last year. This figure would have amounted to € 131 million (+ 24.6%) in the absence of extraordinary contributions in the reference period of € 28.048 million, excluding tax effect, paid for the stabilization of the banking system, in addition to the ordinary contribution to the same aim of € 15.491 million.
- Direct funding from customers at € 30,333 million, - 1.94%.
- Net loans and receivables to customers amounted to € 25,414 million, + 0.4%.
- Over € 2.6 billion in new loans to households and corporates.
- A strategic agreement has been signed for the distribution of life and non-life insurance policies of affiliated companies Arca Vita and Arca Assicurazioni.
- Ongoing due diligence on Cassa di Risparmio di Cento S.p.A. (Ferrara province) in view of a possible acquisition of control.
- Managed savings at € 5,292 million, + 10.1%.
- Net fee and commission income from services increased by 3.68%; particularly strong growth of the intermediation and advisory component (+9.7%).

- **Internationalisation: further growth of market shares related to cross-border transactions in both trade and services sectors. Enhanced support to corporates' international business.**
- **Net impairment adjustments decreased by 25.55%.**
- **Cost of credit down to 0.68% (from 0.95%).**
- **Coverage of non-performing loans further increased compared to year-end already high figures: coverage on total impaired loans at 48.9% (from 46.17%); coverage on bad loans at 65.3% (from 63.43%); 74.54% including write-off accounted in previous years.**
- **Good NPL ratios. Total gross non-performing loans on gross customer exposures, i.e. gross NPL ratio, decreased from 16.10% at end-2016 to 15.62%.**
- **Increasing capital ratios well higher than regulatory requirements:**
 - **CET1 Ratio at 11.59% from 11.09%;**
 - **Total Capital Ratio at 13.77%.**
- **Texas ratio at 83.09%, lower than competitors' average figure.**
- **Leverage ratio at 5.92%.**
- **Staff: 128 new hires.**

Please find below summary tables with key financial data and information on the composition of the banking Group:

Accounting data (in millions of Euro):

	30/09/2017	30/09/2016	Change
Net interest income	358	363	- 1.45%
Total income	665	657	+ 1.17%
Net financial income	503	480	+ 4.92%
Pre-tax profit on continuing operations	169	147	+ 14.57%
Net profit	112	105	+ 6.74%

	30/09/2017	31/12/2016	Change
Direct funding from customers	30,333	30,934	- 1.94%
Indirect funding from customers	29,802	28,409	+ 4.90%
Insurance funding from customers	1,327	1,266	+ 4.83%
Total customer funding	61,462	60,609	+ 1.41%
Loans and receivables with customers	25,414	25,313	+ 0.40%

	30/09/2017	30/09/2016	Change
Direct funding from customers	30,333	28,807	+ 5.30%
Indirect funding from customers	29,802	26,926	+ 10.68%
Insurance funding from customers	1,327	1,274	+ 4.16%
Total customer funding	61,462	57,007	+ 7.81%
Loans and receivables with customers	25,414	24,396	+ 4.17%

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

Today, the Board of Directors of Banca Popolare di Sondrio, società cooperativa per azioni, has reviewed and approved the consolidated interim report at 30 September 2017.

Consolidated net profit for the period amounted to € 112.341 mn, + 6.74% compared to 30 September 2016. This result benefitted from the ongoing economic recovery, which also led both to an increase in credit quality and to improved financial markets conditions. It was achieved despite the significant ordinary and extraordinary costs related to the stabilization of the banking system, which weighed on the pre-tax profit for € 43.539 mn.

With a strong propensity to development and innovation, supported by a dynamic branch network and by other Group entities, the International Department recorded a significant increase in market shares on the overall cross-border transaction market, for both the trade and in the services sector, not only among more traditional customers but also with major corporates and primary institutional counterparties. Related profit is satisfactorily increasing.

As regards the internationalization process, our support to corporates and to institutional counterparties active in our territorial areas has been further reinforced through a range of continuing initiatives: incoming visits from abroad, business missions in particularly promising geographical areas, international trade fairs, specialist seminars, with the participation of our partners active in the main business centers worldwide.

Advisory and assistance to customers on EU funding opportunities through CBE Geie in Bruxelles has been particularly noteworthy.

Managed savings record an excellent increase, supported by the quality and the wide choice of products on offer, which range from our portfolio management services to the funds of the affiliated companies Arca Sgr and Etica Sgr, to Popso (Suisse) Investment Fund Sicav, whose funds are mainly managed by our subsidiary Banca Popolare di Sondrio (SUISSE), characterized by a strong tradition in asset management.

In this context the traditional client-focused approach, further reinforced by the development of advisory services in the financial investment sector, is sustained by the increasing trend of savers to use higher value-added instruments, especially in market conditions characterized, as at present, by historically low interest rates.

As far as **bancassurance** is concerned, on 7 November the bank renewed ahead of time the strategic agreement for the distribution of life and non-life insurance policies of Arca Vita (63.39% capital held by Unipol Group, 19.67% held by BPER Banca, 14.84% held by Banca Popolare di Sondrio) and Arca Assicurazioni (98.12% held by Arca Vita)

and also foresaw an increase in the range of products offered.

The strong engagement of the bank in this sector is therefore confirmed, as we believe that important growth opportunities and profits from service-related fees lie ahead.

Direct funding from customers amounted to € 30,333 mn, - 1.94% compared to 31 December 2016, + 5.3 % year-on-year. **Indirect funding from customers** at market value amounted to € 29,802 mn, + 4.9% compared to 31 December 2016. **Insurance funding** totalled € 1,327 mn, + 4.83% compared to 31 December 2016. **Total customer funding** therefore amounted to € 61,462 mn, + 1.41% compared to 31 December 2016.

Loans and receivables with customers amounted to € 25,414 mn, + 0.4% compared to end-2016 and + 4.17% year-on-year. **Net non-performing loans** (NPL) amounted to € 2,207 mn, - 7.34% and represent 8.69% of total loans compared to 9.41% at end-2016, with a coverage of 48.9% compared to 46.17% at 31 December 2016. Within NPL, **net bad loans** amounted to € 767 mn, - 0.16%, hence their weight on total loans amounted to 3.02% of customers loans. Coverage ratio of bad loans amounted at 65.3% compared to 63.43% at 31 December 2016. If previous years write-offs are considered, the coverage of these loans amounted to 74.54%. Unlikely to pay amounted to € 1,260 millions, - 4.7%, with a coverage ratio of 33.5% and a weight on total loans of 4.96%, while past due and/or overdraft exposures amounted to € 180 million, - 38.21%, with a coverage ratio of 16.10% and a weight on total loans of 0.71%.

Financial assets (derivatives and securities owned) amounted to € 11,703 mn, + 48.56% compared to 31 December 2016, an increase due, among other things, to the large amount of available liquidity. Equity investments decreased by € 2 mln to € 206 mln, due to the difference between the equity valuation of such investments and the investment in Banca della Nuova Terra spa, which has now been fully consolidated.

At 30 September 2017, short-term (LCR - Liquidity coverage ratio) and mid-long term (NSFR-Net Stable Funding Ratio) liquidity indicators' values were higher than the minimum requirements for both 2017 (80%) and 2018 (100%).

With regard to the consolidated income statement, **net interest income** amounted to € 357.608 mn, - 1.45% compared to 30 September 2016.

Net fee and commission income amounted to € 221.582 mn, + 3.68%.

Positive results from **securities and foreign exchange operations** amounted to € 80.404 mn, + 8.59%.

Total income was at € 664.637 mn, + 1.17%.

Net impairment losses on loans and receivables, available-for-sale and other financial assets amounted to € 161.210 mn, a significant decrease compared to the previous period where they were at € 177.167 mn, characterized by divergent trends in its components. Impairments on customer loans and receivables decreased from € 173.441 mn to € 129.131 mn (- 25.55%, due to generally improved economic conditions and to enhancements in credit monitoring systems). As a consequence, cost of credit significantly improved, from 0.95% at 30 September 2016 and 0.99% at end-2016 to 0.68% at 30 September 2017. Impairments on available-for-sale financial assets, which amounted to € 4.177 mn at 30 September 2016, amounted to € 31.871 mn of which: as

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much as € 26.022 mn related to the impairment of the Parent's holding in the Atlante fund; € 1.194 mn related to the FITD Voluntary Scheme's intervention in favour of Cassa di risparmio di Cesena; the remainder, € 4.655 mn, related to a few equity investments and other closed-end mutual funds.

Impairments on other financial transactions amounted to € 0.208 mn.

Net financial income amounted to € 503.427 mn, + 4.92%

Total operating costs resulting from administrative expenses, provisioning, depreciation on property and on intangible assets, and other net operating income, amounted to € 349.511 mn, + 2.03%. The component relative to **administrative expenses**, which excludes employees' retirement benefit provisions reclassified in the other net operating income, amounted to € 375.926 mn, (+ 2.32%), of which € 176.185 mn (+ 2.3%) related to staff cost and € 199.741 mn (+ 2.34%) related to other administrative expenses; the latter included € 16.323 mn representing incurred or accrued contributions to the Resolution Fund and the FITD. The other operating expenses/income component amounted to € 46.580 mn (- 6%), while value adjustments on fixed assets amounted to € 24.606 mn (+ 2.85%) and net accruals to provisions for risk and charges recorded a positive value of € 4.441 mn.

Equity investments and other investments produced a profit of € 14.880 mn, +47.46%; this item includes € 2.895 mn of goodwill due to the full consolidation of Banca della Nuova Terra spa.

Pre-tax profit from continuing operations therefore amounted to € 168.796 mn, +14.57%.

After deducting **income taxes** for € 50.593 mn (- 22.48%) and minority interests for € 5.862 mn, the resulting consolidated **net profit** for the period amounted to € 112.341 mn, + 6.74%.

At 30 September 2017, **consolidated own funds** including profit for the period amounted to € 2,682 mn, + 3.63% compared to 31 December 2016.

At 30 September 2017, **consolidated own funds for supervisory purposes** amounted to € 3,130 mn including the profit for the period ending on 30 September 2017.

At 30 September 2017, **capital ratios** calculated on a consolidated basis and based on own funds as described above, were significantly higher than the minimum requirements established by Banca Popolare di Sondrio Group's Supervisory Authority. In particular, the CET 1 Ratio, the Tier1 Ratio and the Total Capital Ratio calculated with *phase-in* approach were at 11.59%, 11.62% and 13.77% respectively. These ratios were calculated using a standardized approach for the valuation of credit risk, as internal rating models may not be employed in the calculation of capital ratio since they have not yet been validated.

At 30 September 2017, the **leverage ratio** was at 5.92% both on a *phase-in* and on a *fully-loaded* basis.

Network branches were 359. Since the start of the year, the Parent opened new branches in Fidenza (Parma province) and Piacenza while the subsidiary Banca

Popolare di Sondrio (SUISSE) SA opened in Martigny (canton of Valais).

At 30 September 2017, **staff** employed by the banking Group was 3,192. After adding 28 employees of the subsidiary Pirovano Stelvio spa, of which 25 are seasonal, total headcount amounted to 3,220.

As of today, **shareholders** are 175,845.

With regard to the near future, the persisting expansionary monetary policy of the ECB will certainly weigh on the net interest income. This will necessarily lead to a further reduction in funding costs.

The positive economic outlook justifies expectations of continued improvements in credit quality and favourable market conditions.

In the absence of unforeseeable events we therefore expect that operations in the last quarter of 2017 would be aligned to current Group dynamics.

The interim report at 30 September 2017 will be published on a voluntary basis on the corporate website www.popso.it and deposited in the authorised storage mechanism www.emarketstorage.com and at the Head office 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

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Sondrio, 9 November 2017

Appendices:

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 STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

Assets	30/09/2017	31/12/2016
10. Cash and cash equivalents	746,034	789,612
20. Financial assets held for trading	862,852	1,019,712
30. Financial assets at fair value through profit or loss	108,400	96,303
40. Available-for-sale financial assets	10,632,435	6,644,437
50. Held-to-maturity investments	99,295	117,023
60. Loans and receivables with banks	1,200,637	1,786,732
70. Loans and receivables with customers	25,414,465	25,313,464
100. Equity investments	206,492	208,575
120. Property, equipment and investment property	326,077	320,922
130. Intangible assets	25,057	23,869
of which:		
- goodwill	7,847	7,847
140. Tax assets	445,798	484,698
a) current	58,316	73,251
b) deferred	387,482	411,447
b1) of which as per Law 214/2011	343,960	360,592
160. Other assets	318,503	390,978
Total assets	40,386,045	37,196,325

Liability and Equity	30/09/2017	31/12/2016
10. Due to banks	6,249,605	2,504,510
20. Due to customers	27,353,195	27,702,353
30. Securities issued	2,979,962	3,231,782
40. Financial liabilities held for trading	43,043	73,016
60. Hedging derivatives	26,084	38,734
80. Tax liabilities	53,272	45,636
a) current	1,728	2,963
b) deferred	51,544	42,673
100. Other liabilities	686,246	701,529
110. Post-employment benefits	43,658	44,805
120. Provisions for risks and charges:	178,799	181,552
a) pensions and similar obligations	137,038	130,874
b) other provisions	41,761	50,678
140. Valuation reserves	71,448	41,927
170. Reserves	1,084,088	1,033,417
180. Share premium	79,005	79,005
190. Share capital	1,360,157	1,360,157
200. Treasury shares (-)	(25,378)	(25,349)
210. Equity attributable to minority interests	90,520	84,652
220. Profit for the period	112,341	98,599
Total liabilities and equity	40,386,045	37,196,325

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

Items	30/09/2017	30/09/2016
10. Interest and similar income	463,602	500,617
20. Interest and similar expense	(105,994)	(137,730)
30. Net interest income	357,608	362,887
40. Fee and commission income	235,400	227,613
50. Fee and commission expense	(13,818)	(13,896)
60. Net fee and commission income	221,582	213,717
70. Dividends and similar income	5,043	6,329
80. Net trading income	52,772	8,009
90. Net hedging income	(11)	240
100. Net gains from sales or repurchases of:	19,677	66,964
a) loans and receivables	-	-
b) available-for-sale financial assets	19,693	67,625
c) held-to-maturity instruments	-	-
d) financial liabilities	(16)	(661)
110. Net gains on financial assets and liabilities at fair value through profit or loss	7,966	(1,171)
120. Total income	664,637	656,975
130. Net impairment losses on:	(161,210)	(177,167)
a) loans and receivables	(129,131)	(173,441)
b) available-for-sale financial assets	(31,871)	(4,177)
c) held-to-maturity instruments	-	-
d) other financial transactions	(208)	451
140. Net financial income	503,427	479,808
150. Net insurance premiums	-	-
160. Other net insurance income (expense)	-	-
170. Net financial income and insurance income	503,427	479,808
180. Administrative expenses:	(383,771)	(370,204)
a) personnel expenses	(184,030)	(175,030)
b) other administrative expenses	(199,741)	(195,174)
190. Net accruals to provisions for risks and charges	4,441	(796)
200. Depreciation and net impairment losses on property, equipment and investment property	(13,658)	(13,743)
210. Amortisation and net impairment losses on intangible assets	(10,948)	(10,182)
220. Other net operating income	54,425	52,355
230. Operating costs	(349,511)	(342,570)
240. Share of profits of investees	14,876	9,898
250. Net fair value losses on property, equipment and intangible assets measured at fair value	(5)	160
260. Goodwill impairment losses	-	-
270. Net gains on sales of investments	9	33
280. Pre-tax profit from continuing operations	168,796	147,329
290. Income taxes	(50,593)	(41,306)
300. Post-tax profit from continuing operations	118,203	106,023
310. Post-tax profit (loss) from discontinued operations	-	-
320. Net profit (loss) for the period	118,203	106,023
330. Net profit (loss) of the period attributable to minority interests	(5,862)	(771)
340. Net profit (loss) for the period attributable to the owners of Parent bank	112,341	105,252

SUMMARY INCOME STATEMENT (in thousands of euro)

(in thousands of euro)	30/09/2017	30/09/2016	(+/-)	% change
Net interest income	357,608	362,887	-5,279	-1.45
Dividends and similar income	5,043	6,329	-1,286	-20.32
Net fee and commission income	221,582	213,717	7,865	3.68
Net gains on financial assets	80,404	74,042	6,362	8.59
Total income	664,637	656,975	7,662	1.17
Net impairment losses	-161,210	-177,167	15,957	-9.01
Net financial income	503,427	479,808	23,619	4.92
Personnel expenses	-176,185	-172,228	-3,957	2.30
Other administrative expenses	-199,741	-195,174	-4,567	2.34
Other net operating income	46,580	49,553	-2,973	-6.00
Net accruals to provisions for risks and charges	4,441	-796	5,237	-657.91
Depreciation and amortisation on tangible and intangible assets	-24,606	-23,925	-681	2.85
Operating costs	-349,511	-342,570	-6,941	2.03
Operating result	153,916	137,238	16,678	12.15
Share of profits of investees and net gains on sales of investments	14,880	10,091	4,789	47.46
Pre-tax profit from continuing operations	168,796	147,329	21,467	14.57
Income taxes	-50,593	-41,306	-9,287	22.48
Net profit (loss) for the period	118,203	106,023	12,180	11.49
Net profit (loss) of the period attributable to minority interests	-5,862	-771	-5,091	660.31
Net profit (loss) for the period attributable to the owners of Parent bank	112,341	105,252	7,089	6.74

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