



Banca Popolare di Sondrio

Società cooperativa per azioni - Founded in 1871
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149th FINANCIAL YEAR

Sondrio, 1st January 2019

To our over 170,000 co-operative members

Dear Member and Friend,

Best wishes to each and everyone for a healthy and prosperous 2019.

Every New Year's Day starts with a change of calendar. While archiving the 365 days behind us, we look back, as ever, on the most significant events, aware that, with maturity, time teaches us a great deal.

First and foremost, our thoughts turn to the economy and all that comes with it. Despite the consolidation of the world economy, trade has slowed significantly and there has been rising financial tension in the weaker Emerging Nations, in particular.

Trade sanctions, either imposed or just threatened by the American government, and the evolution of Brexit have been the cause of ever greater uncertainty about what lies ahead and have damaged growth.

The economy of the Eurozone has continued to expand, albeit not homogeneously, with the last few months of the year, in particular, witnessing a significant downturn.

Financial markets worldwide have been characterised by volatility, a prompt indicator of geopolitical uncertainty and global trade dynamics, areas of key interest in the months ahead.

In Italy, the brisk start to the year faded gradually to the point of stagnation with falling investment and consumption. 'Piazza Affari', the Italian Stock Exchange, (FTSE All Share) has gone into reverse, losing 16.71% compared with a gain of 15.55% in 2017.

The Bank Share Index (Italian All Share Banks) fared even worse, falling 30.3%, almost diametrically opposite to the performance of the BT Bund spread, which rose by 58% over the year. Our own share price, quoted on the MTA Italian Stock exchange, also suffered, though only moderately, maintaining however capitalisation levels among the highest on the domestic market. When the spread increases, therefore, Stock Exchange indexes fall.

In this roller-coaster scenario, with the light often obscured by the prevailing shadows, we have endeavoured to seek out the most favourable business opportunities among those available to us.

As always, we have provided financial services for the many deserving businesses that, in the face of adversity, continue to support the national economy with their drive, optimism and commitment. We have also met the needs of the many families who, while facing everyday challenges, are also planning for their future.

Although the 2018 balance sheet is not yet definitive, we can already say that our bank has once again produced positive results attributable, what is more, solely to its ordinary course of business: this, despite a reduction in revenue from Financing which, over the last months, has been compromised not only by the general situation of the markets but also by having to bear the heavy burden of costs related to the stabilisation of the banking system and impaired credit. These have impacted negatively on expected economic performance.

These credits, better known as Non Performing Loans (NPLs), are now managed by a special organisational structure utilizing carefully honed tools and procedures aimed at maximising their inherent potential while taking into account the manner in which each individual situation has deteriorated. In line with this policy, we have not initiated particular NPL disposal procedures preferring additional provisioning to gradually increase the level of coverage of impaired and non-performing loans, and this independently of the improved 'cure rate' which marks the end of a period of 'convalescence' of a NPL and a return to a healthy position.

Turning our attention to capital, which has increased in recent years through self-financing, the parameters are well above the regulatory levels and are essentially in line with those of our competitors. In this respect, as the ECB inspection has been completed, we will shortly be in a position to take advantage of the welcome benefits associated with the validation of our rating system, yet another indicator that will help to further raise confidence in the solidity of the bank, confidence that has manifested itself in the substantial liquidity entrusted to us by our clientele.

The subsidiaries in the Group, BPS (SUISSE) SA, Factorit, Banca della Nuova Terra and PrestiNuova (acquisition completed in July 2018) have all been 'busy bees'. Thanks to their tireless industry and collaboration, they have returned positive results. At the beginning of December, the Swiss subsidiary opened a new representative office in the village of Verbier in the Canton of Valais, one of Switzerland's leading skiing and Alpine holiday resorts. At the end of November, however, the Samedan branch closed its doors and was incorporated into the St Moritz branch activity.

At the close of 2018, having inaugurated a new branch in Alassio (SV) in late December, the Banca Popolare di Sondrio currently has 343 branches located in Lombardy, Emilia Romagna, Liguria, Valle d'Aosta, Piemonte, Veneto, Trentino Alto Adige and Lazio. To these should be added the 139 treasury branches. BPS (Suisse) has 18 branches located in the Cantons of Grisons, Ticino, Bern, Zurich, Basel, Neuchâtel and Valais as well as the virtual platform of Direct Banking in Lugano, the aforementioned Verbier representative office and the foreign branch in the Principality of Monaco. Our Group, therefore, has now over 500 branches and offices.

On the 30th October 2018 our bank signed a share purchase agreement with the Fondazione Cassa di Risparmio di Cento and Holding CR Cento SpA finalising the acquisition of a majority share holding of Cassa di Risparmio di Cento SpA with the intention of acquiring 100% in the future. This company operates 47 branches in the provinces

of Ferrara, Bologna, Ravenna and Modena, areas all renowned for their hardworking populations where entrepreneurship flourishes. The cultural similarity of CRC and its deep-rooted territorial links, akin to those of the BPS, provide fertile ground for a merger between the two institutions without compromising any of their respective individual characteristics, which will surely bring benefits for both in the future.

With a view to extending the range of services on offer, while at the same time diversifying our activities, since May 2018 we have been partners in a joint venture Rent2Go srl, together with Gruppo Autotorino and Gruppo Barchetti, both well known companies, with whom we have created a new company to manage long-term vehicle rental.

We were delighted to receive two prestigious awards this year: the 'Creators of Value -The Best Bank in Lombardy Award' and the 'Guido Carli Award for Retail Bank of the Year' as part of the Milan Global Financial Awards 2018. Equally welcome were the pleasing results from the rating agencies Fitch Ratings of London and Dagong Europe, affiliated to Dagong Global Credit of Peking.

The mandatory conversion of the bank from its current Co-operative Bank status into a Joint Stock Company, which should have taken place by the end of 2018, has now slipped by a year to 2019. Moreover, the complex judicial matter regarding the legitimacy of the Popolari Reform Act is now in the hands of the European Court of Justice.

Our BPS International Department, thanks to the many representation offices and desks abroad as well as the BPS (Suisse) subsidiary, have given valuable support to clients seeking to establish business contacts and strengthen commercial networks around the world. Furthermore, a number of highly successful meetings and seminars have been organised on the theme of 'Internationalisation'.

The Commercial Services Department has also been hard at work launching diverse products with the aim of satisfying the needs of our clients, including those most demanding and sensitive to innovation.

The I.T. Department has been extremely successful in providing in-depth analysis of the latest I.T. developments, rendering our operations ever more efficient. This was also possible thanks to increased process digitisation facilitating the process of change with significant investment to raise the level of security in I.T. infrastructure.

The various central offices of the bank have made their distinctive contribution too. During the year approximately 200 young people started work in the bank, eager to prove themselves and put their studies into practice, which they did with excellent results showing the same commitment and professionalism as all the collaborators in the Group. What we need to learn, and this is our motto, we will learn by doing it with a professional approach, a sense of belonging and a passion for the job. The Banca Popolare di Sondrio is listed among the 500 companies in the world, 11 of which are Italian, classified as best workplace by the well-known journal Forbes.

The events organised on the Stelvio Pass by Pirovano, also known as the 'The University of the Mountains and Skiing' were enjoyed by skiers, cyclists, walkers and nature-lovers alike.

As usual the bank has dedicated particular attention to cultural initiatives, opting for quality rather than quantity.

The elegant quarterly bank magazine now in its 46th year, published many interesting articles on a wide range of subjects including diverse expert opinions on climate change. 'The Changing Planet' is the title of last year's special column with an introduction by His Eminence Cardinal Gianfranco Ravasi. Dispersed throughout the 2017 Report, there are illustrations of some of the bank's Valtellina artworks dating back to the second half of the last century. Accompanying the BPS (Suisse) Subsidiary Business Report of 2017 is the substantial monograph about Clay Regazzoni, the Swiss motor-racing champion. At the Annual General Meeting on April 28th, participants were presented with a copy of the bank's publication 'Alpi Dipinte'.

Our annual round of conferences opened on February 2nd with Monsignor Dario Edoardo Viganò, one of the Vatican's great cultural ambassadors. On October 26th the season continued with the Professor of Economics Carlo Cottarelli and the senior columnist Ferruccio de Bortoli at an event that saw the participation of Arca Fondi SGR. The sessions ended on December 14th with Dottoressa Alessandra Dolci, Deputy State Public Prosecutor and Co-ordinator of the Milan District Anti-Mafia Directorate. Earlier in the day, Ms Dolci addressed hundreds of students at the Sondrio Student Campus and in the evening spoke to the public in the Fabio Besta conference room at the bank. These events were chosen to reflect the solemn occasion of the 94th anniversary of World Savings Day.

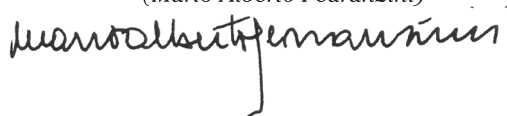
Dear Member and Friend,

It is no easy feat to produce positive results when surrounded by external circumstances which, for one reason or another, prove to be negative. Our New Year's resolution, which will be clearly observable in our approach to every-day activities, is to work responsibly and purposefully in an entrepreneurial framework. Remaining faithful to the task with which we have been entrusted, we wish to contribute to society and administer the bank efficiently, ensuring sustainability for the future in the greater interests of the bank, its members, its clients, its employees and the communities in which we operate. To work hard and work well, with caution, wisdom and vision while communicating with sincerity: this is our mission. It is the direction we have chosen to follow, to allow change without loss of identity and to continue to be worthy of the trust that has been placed in us.

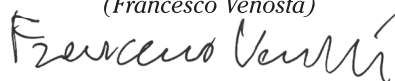
We thank you for your support and your attention and look forward to seeing you in Spring at the Annual General Meeting in Bormio.

In the meantime, we renew our sincere best wishes to you and your family for the New Year which has just begun.

Il Consigliere Delegato e Direttore Generale
(Mario Alberto Pedranzini)



Il Presidente
(Francesco Venosta)



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