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 Company 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 Deposits Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 - Reserves: € 1,034,954,284
(figures approved at the shareholders' meeting held on 28/4/2018)

PRESS RELEASE

Board of Directors' meeting 11th February 2019

Approval of draft consolidated preliminary results as at 31st December 2018

A SOLID AND PROFITABLE BANK
A CONSTANT CREATOR OF VALUE

The Board of Directors of the Banca Popolare di Sondrio, cooperative joint-stock company, has today examined and approved the draft financial statement regarding the economic and capital data for 2018.

Consolidated Net earnings of €110.8m, although lower than the previous year, shows the resilience of the group and its ever constant ability to create value over time and self- finance its growth.

This result, that unfortunately has felt the volatile impact of the financial markets, has been positively influenced by the extraordinary NEXI SpA dividend of €20.8m, despite also being penalised by the contributions aimed at the stabilisation of the Italian banking system for €32.2m.

The return on equity (ROE) amounts to 4.4%.

As regards capital levels, the CET1 phased-in ratio stands at 12.03%, up 43 basis points compared with 11.6% in 2017. Standard methodology is applied to risk weighted assets which have benefited from a careful management policy. These capital levels do not include the effects of the ECB validation of the internal rating model regarding the Corporate and Retail segments which for the parent company alone at end year 2018 accounts for 57% of the credit exposure granted to its clients and for 92% of the counterparties' number.
Following the conclusion of the on-site inspection back in August 2018 it is reasonable to expect the issuance of the authorisation for the validation model in the near future.

The short and medium term liquidity indicators present very reassuring values, well above 100%. Thanks to the extensive availability of liquid assets and the maturing of some investments in bonds in 2019, it is not envisaged that the Bank will require liquidity linked to the TLTRO operations maturing between 2020 and 2021.

Traditional Banking operations increased by 3.6%, the sum of an increase of 3.7% in interest margins plus a 3.6% rise in net commissions from bank charges.

The overall performance of securities was marked by a substantial reduction compared to 2017 (down 91.7%) given the adverse market conditions and perception of higher risk of sovereign bonds by both domestic and international investors.

As always, support for our clients and the local community has continued, this year amounting to €2,500m in new loans.

Direct deposits totalled €31,063m compared with €31,634 (2017) down slightly by 1.8% while indirect deposits were up slightly by 0.2% to €30,182m from €30,119m.

Insurance revenue amounted to €1,410m, up 5.6% compared to the previous year.

Gross NPL loans fell by €109m. The gross and net NPL value ratios improved, 14.55% and 6.97% compared with the 2017 figures of 15.08% and 6.97% respectively. These values reflect the strategies implemented within the bank without resorting to sales with the aim of safeguarding the primary interests of the bank whilst guaranteeing, as far as possible the possibility of repayment, albeit gradual, of sums owed.

Adjustments for credit risk totalled €237.3m against €267.5m in 2017. The current credit cost is 0.93% compared with 0.90% in 2017. This total takes into account the provisioning agreed with the ECB inspectors who are in the process of concluding their on-site Credit File Review regarding Corporate and Corporate SME portfolios which at the end of June 2018 accounted for 48% of credit to clients.

The current bad loan coverage rate is 69.36% while the overall NPL rate is 56.21% Over the last two years, 2017 and 2018, coverage levels have increased by over 1000 basis points, 482 in 2017 plus 522 in 2018. This highlights a prudent linear management policy aligning balance sheet and forecasted disposal values.

The Texas Ratio, the ratio between total net NPL credit and tangible net capital is improving moving from 77.99% to 68.86%.

The leverage Ratio phased in is 5.85%while fully phased is 5.78%.

The employees, the main company asset, reached 3,254 thanks to 206 new entries with an average age of 28.

The Dagong rating, affiliated to the Chinese parent company 'Dagong Global Credit Rating, (Long term Issuer Default Rating) was affirmed at BBB and the medium long-term outlook described as 'Stable'.

Below are the summary tables with key financial data and information on the composition of the banking Group.

The comparative economic data as at 31/12/2017 are shown without changes with respect to the values determined in application of the accounting standards in force at the time. They are therefore not comparable on a like-for-like basis with those at 31/12/2018, which reflect the application of IFRS 9 as from 1st January 2018.

The balance sheet figures for the comparison period referring to 31/12/2017 are, on the other hand, restated taking into account the changes made at the time of first application of the international accounting standards that came into force on 1st January 2018.

Accounting data (in million of Euro):

	31/12/2018	31/12/2017	Variation
Net interest income	508.1	489.9	+3.7%
Net fee and commission income	315.7	305.1	+3.5%
Total financial result	13.4	161.3	-91.7%
Total income	866.3	961.9	-9.9%
Net impairment losses	237.3	267.5	-11.3%
Operating costs	503.0	487.7	+3.1%
Pre-tax profit from continuing	142.7	233.7	-38.9%
Net profit of the period attributable to the owners of Parent Company	110.8	159.2	-30.4%

	31/12/2018	01/01/2018	Variation
Direct funding from customers	31,063	31,634	-1.8%
Indirect funding from customers	30,182	30,119	+0.2%
Insurance funding from customers	1,410	1,336	+5.6%
Total customer funding	62,655	63,089	-0.7%
Cash loans to customers	25,845	25,696	+0.6%

The banking Group is currently composed of:

- Banca Popolare di Sondrio, societa cooperativa per azioni (Parent Company);
- Banca Popolare di Sondrio (SUISSE) SA (100% owned subsidiary);
- Factorit spa (60.5% owned subsidiary);
- Banca della Nuova Terra spa (100% owned subsidiary);
- PrestiNuova spa (100% owned subsidiary);
- Sinergia Seconda srl (100% owned service company);
- Popso Covered Bond srl (60% owned subsidiary).

The Group, even in a difficult environment, mainly due to the uncertainties of the global and domestic economic situation, which affected the financial markets, increasing their volatility, was able to achieve a satisfactory result for the period.

Consolidated net profit as at 31 December 2018, amounts to € 110.8 million, down 30.4 % compared to € 159.2 million of the 2017 financial year, which benefitted from a particularly favourable trend in financial markets.

Direct deposits amount to € 31,063 million, down 1.8% on 31 December 2017. **Indirect deposits** are worth, at market value, € 30,182 million, up 0.2% on 31 December 2017, and **insurance deposits** amount to € 1,410 million, up 5.6% on 31 December 2017. Total customer deposits therefore stand at € 62,655 million, down 0.7% on 31 December 2017.

Loans to customers, consisting of loans to customers valued at amortised cost and loans valued at fair value with impact on the income statement, amount to € 25,845 million, up 0.6% compared to loans to customers at the end of 2017, adjusted to a negative € 60 million at the time of the IFRS9 FTA and amounting to € 25,696 million.

Net impaired loans amount to € 1,803 million, down 11.50%, and represent 6.97% of total loans compared to 7.93% at the end of 2017, with a coverage of 56.21% compared to 51.79% at 31 December 2017. In the context of loans, **net bad loans** amount to € 760 million, up 1.9%, the incidence on total loans to customers is 2.94% compared to 2.90% at the end of 2017. Bad loans are covered up to 69.36% compared to the coverage of 67.57% at 31 December 2017. If we take into account the amounts transferred to the income statement in previous years, the coverage of these loans is equal to 78.02%. **Unlikely-to-pay loans** amount to € 957 million, down 17.1%, with a coverage ratio of 37.39% (increasing from 34.67% at the end of 2017) and an incidence on total loans of 3.70%. **Impaired past due and/or overdrawn exposures** amount to € 85 million, down 37.3%, with a coverage ratio of 19.44% and an incidence on total loans of 0.33%. This decrease reflects the positive effects of the increasingly pervasive action in the granting and management of loans, in the absence of the disposal of impaired loans to third parties.

Financial assets, represented by owned securities and derivatives, amount to € 11,065 million, down 7% on 31 December 2017. The portfolio of financial assets, calculated at amortised cost, increased significantly year-on-year (up 42.1%), while the portfolio of financial assets at fair value through other comprehensive income decreased (down 35.8%).

Equity investments total € 221 million, an increase of 1.5% compared to 31 December 2017.

At 31 December 2018, the short-term **liquidity** indicators (LCR-Liquidity Coverage Ratio) and medium-long term indicators (NSFR-Net Stable Funding Ratio) stand at values well above the minimum requirements for 2018 (80%).

The Group can always rely on a substantial portfolio of refinanciable assets which, net of applied haircuts, amounted to € 11,924 million, down 5.1% compared to the end of 2017, of which € 6,828 million available and € 5,096 million committed.

Regarding the components of the consolidated income statement, compared with the results as of 31 December 2017, the **net interest income** shows € 508.1 million, up 3.7% compared to € 489.9 million from the last financial year.

Net fee and commissions income from services showed a positive trend, reaching € 315.7 million, up 3.5%, thanks in particular to the healthy performance of those deriving from the placement of asset management and insurance products, as well as those related to current account management and collection and payment services.

Dividends received amount to € 29.1 million, a significant increase from

€ 5.5 million in 2017, mainly due to the recognition of an extraordinary dividend of € 20.8 million.

The **overall result from securities, foreign exchange, derivatives and receivables valued at fair value** (which is the sum of items 80, 90, 100 and 110 in the income statement) was € 13.4 million, down 91.7% from the € 161.3 million of the same period of the previous year. This trend, in addition to being affected by the negative effects deriving from the increased volatility of financial markets in 2018, was also affected by the absence of the significant capital gains realised in the comparison period thanks to the sale of securities in the portfolio.

This aggregate also includes the charge of € 5.3 million resulting from the full recognition in the income statement of the contribution paid to the Interbank Deposit Protection Fund (FITD) Voluntary scheme for the subscription of subordinated securities issued by Banca Carige S.p.A.

The **total income** therefore fell to € 866.3 million, down 9.9% compared to 2017.

Net impairment losses (items 130 in the income statement) settled on € 237.3 million, with a slight decrease compared to the same period of the previous year (down 11.3%) when they amounted to € 267.5 million. The component consisting of net impairment losses on financial assets at amortized cost, represented by exposures to customers and banks in the form of both loans and securities, amounted to € 241.3 million compared to € 231.6 million in the previous year. Despite the general improvement in the macroeconomic environment that occurred in the first half of 2018, the tensions created with reference to some primary operators in the construction and public works sector were negatively affected.

The net impairment losses on financial assets at fair value through other comprehensive income recorded value recoveries of € 4 million on debt securities.

Item 140 of the income statement, which records net gains from contractual changes without derecognition, deriving from changes made to contractual cash flows, recorded losses of € 2.8 million.

The ratio of net impairment losses on financial assets at fair value through other comprehensive income, item 130a of the income statement, to net loans to customers, the so-called cost of credit, was 0.93%.

The **net financial income** amounts to € 626.1 million, down 9.8%.

Total **operating costs** amount to € 503 million, up 3.1%, an increase mainly due to the rise in net accruals to provisions for risks and charges, an aggregate which, as a result of the new accounting standards, now also includes the adjustments to guarantees, previously recorded under the item "adjustments to loans", which in 2018 was € 12 million.

The ratio of operating costs to total income, the so-called "cost income ratio", therefore stood at 58.06% from 50.70% at the end of 2017, affected by both the aforementioned increase in costs and the reduction in total income.

Analysing the individual cost items, administrative expenses, for which a reclassification has been made regarding the provision for retirement fund income, amounted to € 520.3 million, up 1.4%; personnel expenses rose to € 239 million, up 1.2%. Similarly, other administrative expenses rose from € 277.1 million to € 281.3 million, up 1.5%. This aggregate also includes € 26.9 million in charges relating to contributions to the Resolution and Guarantee Fund and the Interbank Deposit Protection Fund. Net accruals to provisions for risks and charges amounted to € 11 million, compared to € 1.5 million in the same period of the previous year.

Depreciation/Amortisation and net impairment lossess on tangible and intangible assets amounted to € 35 million, down 3.4%. Other net operating income, reclassified as mentioned above, amounted to € 63.3 million, and remained substantially stable.

The **operating result** therefore rose to € 123.1 million, down 40.4%.

Share of profits of investees and investments showed a positive balance of € 19.6 million, down 27.7% compared to € 27 million in the comparative period.

The **pre-tax profit from continuing operations** was therefore € 142.7 million, down 38.9%.

After deducting **income taxes** of € 28.7 million, down 58.1%, and net profit of the period attributable to minority interests of € 3.2 million, **net profit for the period** is € 110.8 million, down 30.4%.

The **tax rate**, to be understood as the simple ratio between income taxes and profit from continuing operations, was 20.1%, compared to 29.3% in the comparison period.

Consolidated own funds, including net income for the year, amounted to € 2,651 million at 31 December 2018, an increase of € 17 million compared to shareholders' equity at 31 December 2017, already adjusted, negatively, by € 45 million at the time of the FTA of IFRS 9.

Consolidated own funds for supervisory purposes at 31 December 2018, taking into account the portion of profits for the period allocated to self-financing, amounted to € 2,981 million, compared to € 3,106 million at 31 December 2017.

The **capital ratios** as at 31 December 2018, based on 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. In details, the CET1 Ratio, the Tier1 Ratio and the Total Capital Ratio are positioned, with phase-in approach, on percentage values equal to 12.03%, 12.07% and 13.61% respectively. These ratios were calculated using a standardized approach for the valuation of credit risk. A further appreciation of the prudential capital ratios is expected following the adoption in 2019 of the advanced AIRB models, for which the Bank is awaiting authorisation from the Supervisory Authority.

The **Leverage Ratio** as of 31 December 2018 is equal to 5.85% applying the interim criteria in force for 2018 (phase-in) and 5.78% based on the fully-operational criteria.

The **Group staff** grew to 3,254 from 3,196 at the end of 2017, to which should be added the 3 resources of Pirovano Stelvio Spa.

Bank's members currently amount to 170,083.

COMPARATIVE DATA EXPOSURE

In the attached financial statements, the comparative amounts for the balance sheet and the income statement at 31/12/2017 have simply been repeated using the formats required by the fifth update to Circular 262/2005 without any adjustments to the balances resulting from application of the accounting standards in force at the time.

This means that the balance sheet and the income statement amounts at 31 December 2017, which do not reflect the impact of applying IFRS 9, are not comparable on a like-for-like basis with the figures presented in the period under review.

The financial statements for 2018 will be submitted for approval at the Board meeting scheduled for March 22th.

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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:

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Sondrio, 11 February 2019

Attachments:

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 prevail.

CONSOLIDATED ACCOUNTING REPORTS AS AT 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

IFRS 9	IAS 39	Assets	31/12/2018	31/12/2017
10.	10.	Cash and cash equivalents	1,577,163	699,379
20.		Financial assets at fair value through profit or loss	858,069	
20a)	20.	Financial assets held for trading	251,044	372,590
20b)	30.	Financial assets designed at fair value	-	-
20c)		Financial assets mandatorily at fair value through profit or loss	607,025	
	20.	Financial assets at fair value through profit or loss		62,463
	30.	Financial assets designed at fair value		281,140
	40.	Available-for-sale financial assets		40,600
	50.	Held-to-maturity investments		6,005
	70.	Loans and receivables with customers		132,532
30.		Financial assets at fair value through other comprehensive income	4,423,618	
	20.	Financial assets at fair value through profit or loss		256,358
	40.	Available-for-sale financial assets		6,630,613
40.		Financial assets at amortised cost	32,873,554	
40a)	60.	a) Loans and receivables with banks	1,320,621	1,920,320
	50.	Held-to-maturity investments		6,856
40b)	70.	b) Loans and receivables with customers	31,552,933	25,623,303
	40.	Available-for-sale financial assets		116,824
	50.	Held-to-maturity investments		4,119,711
50.	80.	Hedging derivatives	-	-
70.	100.	Equity investments	220,957	217,634
90.	120.	Property, equipment and investment property	328,161	327,490
100.	130.	Intangible assets	33,259	23,720
		of which:		
		- goodwill	12,632	7,847
110.	140.	Tax assets	465,040	435,064
110a)	140a)	current	31,834	49,618
110b)	140b)	deferred	433,206	385,446
130.	160.	Other assets	348,364	352,052
Total assets			**41,128,185**	**41,624,654**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of euro)

IFRS 9	IAS 39	Liability and Equity	31/12/2018	31/12/2017
10.		Financial liabilities at amortised cost	37,228,347	
10a)	10.	Due to banks	6,165,836	6,204,835
10b)	20.	Due to customers	28,630,307	28,800,925
10c)	30.	Securities issued	2,432,204	2,833,359
20.	40.	Financial liabilities held for trading	57,211	31,259
30.	50.	Financial liabilities designated at fair value	-	-
40.	60.	Hedging derivatives	16,826	22,468
60.	80.	Tax liabilities	29,767	38,855
60a)	80a)	current	4,252	2,705
60b)	80b)	deferred	25,515	36,150
80.	100.	Other liabilities	760,091	643,520
90.	110.	Post-employment benefits	43,222	45,591
100.		Provisions for risks and charges:	248,850	
100a)		Commitments and financial guarantees given	46,163	
	100.	Other liabilities		30,152
	120.	Provisions for risks and charges		204,277
100b)	120a)	Pensions and similar obligations	160,734	160,799
100c)	120b)	Other provisions	41,953	43,478
120.	140.	Valuation reserves	(34,452)	28,478
150.	170.	Reserves	1,160,683	1,077,440
160.	180.	Share premium	79,005	79,005
170.	190.	Share capital	1,360,157	1,360,157
180.	200.	Treasury shares (-)	(25,375)	(25,370)
190.	210.	Equity attributable to minority interests	93,049	90,593
200.	220.	Profit for the period	110,804	159,210
Total liabilities and equity			**41,128,185**	**41,624,654**

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

		Items	31/12/2018	31/12/2017
IFRS 9	IAS 39			
10.	10.	Interest and similar income	624,515	631,639
20.	20.	Interest and similar expense	(116,380)	(141,717)
30.	**30.**	**Net interest income**	**508,135**	**489,922**
40.	40.	Fee and commission income	336,146	324,053
50.	50.	Fee and commission expense	(20,485)	(18,973)
60.	**60.**	**Net fee and commission income**	**315,661**	**305,080**
70.	70.	Dividends and similar income	29,097	5,533
80.	80.	Net trading income	19,826	60,429
90.	90.	Net hedging income	(95)	(115)
100.	100.	Net gains from sales or repurchases of:	5,486	95,244
		a) Financial assets at amortized cost	2,122	
		a) Loans and receivables		-
		b) Financial assets at fair value through other comprehensive income	3,381	
		b) Available-for-sale financial assets		94,795
		c) financial liabilities	(17)	
		d) financial liabilities		449
110.	110.	Net gains on financial assets and liabilities at fair value through profit or loss	(11,857)	5,761
		a) Financial assets and liabilities designed at fair value	-	5,761
		b) Other financial assets mandatorily at fair value	(11,857)	
120.	**120.**	**Total income**	**866,253**	**961,854**
130.	130.	Net impairment losses on:	(237,313)	(267,533)
		a) financial assets at amortized cost	(241,283)	(231,732)
		b) financial assets at fair value through other comprehensive income	3,970	(35,801)
140.		Net gains form contractual changes without derecognition	(2,839)	
150.	**140.**	**Net financial income**	**626,101**	**694,321**
160.	150.	Net insurance premiums	-	-
170.	160.	Other net insurance income (expense)	-	-
180.	**170.**	**Net financial income and insurance income**	**626,101**	**694,321**
190.	180.	Administrative expenses:	(521,858)	(522,300)
		a) personnel expenses	(240,542)	(245,170)
		b) other administrative expenses	(281,316)	(277,130)
200.	190.	Net accruals to provisions for risks and charges	(10,967)	(1,452)
		a) commitments for guarantees given	(11,926)	(6,796)
		b) other net provisions	959	5,344
210.	200.	Depreciation and net impairment losses on property, equipment and investment property	(17,715)	(18,945)
220.	210.	Amortisation and net impairment losses on intangible assets	(17,274)	(17,269)
230.	220.	Other net operating income	64,839	72,276
240.	**230.**	**Operating costs**	**(502,975)**	**(487,690)**
250.	240.	Share of profits of investees	19,903	26,517
260.	250.	Net fair value losses on property, equipment and intangible assets measured at fair value	(368)	515
270.	260.	Goodwill impairment losses	-	-
280.	270.	Net gains on sales of investments	26	17
290.	**280.**	**Pre-tax profit from continuing operations**	**142,687**	**233,680**
300.	290.	Income taxes	(28,725)	(68,496)
310.	**300.**	**Post-tax profit from continuing operations**	**113,962**	**165,184**
320.	310.	Post-tax profit (loss) from discontinued operations	-	-
330.	**320.**	**Net profit (loss) for the period**	**113,962**	**165,184**
340.	330.	Net profit (loss) of the period attributable to minority interests	(3,158)	(5,974)
350.	**340.**	**Net profit (loss) for the period attributable to the owners of Parent bank**	**110,804**	**159,210**

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/12/2018	31/12/2017	(+/-)	% change
Net interest income	508,135	489,922	18,213	3.72
Dividends	29,097	5,533	23,564	
Net fee and commission income	315,661	305,080	10,581	3.47
Result of financial activities	13,360	161,319	-147,959	-91.72
Total income	**866,253**	**961,854**	**-95,601**	**-9.94**
Net adjustments to loans and financial assets	-237,313	-267,533	30,220	-11.30
Gains/losses on contractual amendments not resulting in derecognition	-2,839	–	–	–
Net financial income	**626,101**	**694,321**	**-68,220**	**-9.83**
Personnel costs	-238,966	-236,214	-2,752	1.17
Other administrative expenses	-281,316	-277,130	-4,186	1.51
Other operating income/expense	63,263	63,320	-57	-0.09
Net accruals to provisions for risks and charges	-10,967	-1,452	-9,515	–
Adjustments to property, equipment and investment property and intangible assets	-34,989	-36,124	1,225	-3.38
Operating costs	**-502,975**	**-487,690**	**-15,285**	**3.13**
Operating profit (loss)	**123,126**	**206,361**	**-83,505**	**-40.41**
Net gains (losses) on equity investments and other investments	19,561	27,049	-7,488	-27.68
Profit (loss) before tax	**142,687**	**233,680**	**-90,993**	**-38.94**
Income taxes	-28,725	-68,496	39,771	-58.06
Profit (loss)	**113,962**	**165,184**	**-51,222**	**-31.01**
Profit pertaining to minority interests	-3,158	-5,974	2,816	-47.14
Profit attributable to the Parent Company	**110,804**	**159,210**	**-48,406**	**-30.40**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, netting them off against the proceeds of the post-employment benefits fund of € 1,576 million.