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Oggetto	:	Consolidated preliminary results as at 31 december 2017

Testo del comunicato

Vedi allegato.

GRUPPO BANCARIO
Credito Valtellinese

PRESS RELEASE

CONSOLIDATED PRELIMINARY RESULTS

AS AT 31 DECEMBER 2017

✓ CAPITAL POSITION

- PHASING-IN COMMON EQUITY TIER 1 RATIO AT 10.6%, SIGNIFICANTLY IMPROVED COMPARED TO 30 SEPTEMBER THANKS TO A RECOVERY IN PROFITABILITY AND A FAVOURABLE TREND IN RWA, IN LINE WITH CAPITAL MANAGEMENT POLICIES
- TANGIBLE BOOK VALUE OF THE GROUP AT EUR 1,398 MILLION, RECOVERING COMPARED TO EUR 1,316 MILLION OF 30 SEPTEMBER 2017

✓ OPERATING RESULTS

- IMPORTANT GENERATION OF ORGANIC PROFITABILITY IN THE FOURTH QUARTER: EUR 211.8 MILLION IN OPERATING PROFIT, WITH EUR 18.8 MILLION OF IMPAIRMENT LOSSES AND A NET PROFIT FOR THE QUARTER OF EUR 70.8 MILLION, IN LINE WITH THE PROFIT RECOVERY TARGETS UNDERLYING THE BUSINESS PLAN
- TREND IN CORE REVENUES SUSTAINED BY GROWTH IN NET FEE AND COMMISSION INCOME (+ 4% YEAR ON YEAR); FEE AND COMMISSION INCOME +4.4%
- OPERATING COSTS SIGNIFICANTLY DOWN (-16.6% YEAR ON YEAR); COST/INCOME RATIO ADJUSTED 63%
- THE RESULT FOR THE YEAR WAS INFLUENCED BY SEVERAL EXTRAORDINARY EFFECTS (ELROND OPERATION, WRITE-DOWN OF FONDO ATLANTE AND OTHER EXTRAORDINARY "SYSTEM" CHARGES, APPLICATION OF NEW POLICY FOR THE MEASUREMENT OF NON-PERFORMING ASSETS, IN NEGATIVE TERMS, REAL ESTATE SALE & LEASE BACK OPERATION, IN POSITIVE TERMS)

✓ CREDIT DEVELOPMENT AND ASSET QUALITY

- STOCK OF GROSS NON-PERFORMING LOANS, WHICH FELL SIGNIFICANTLY FROM EUR 5.4 BILLION AT THE END OF DECEMBER 2016 TO 4 BILLION, GROSS NPL RATIO AT 21.7%, INCORPORATING THE EFFECTS OF THE ELROND OPERATION
- SIGNIFICANT INCREASE IN COVERAGE RATIO FROM 41.5% TO 45.3%, ALSO DUE TO THE APPLICATION OF NEW VALUATION POLICIES (47% WRITE OFFS INCLUDED)
- THE SLOWDOWN IN THE FLOW OF PERFORMING LOANS BECOMING NON-PERFORMING CONTINUED
- NEW LOANS FOR APPROXIMATELY EUR 2,230 MILLION WITH GRADUAL IMPROVEMENT IN "EXPECTED LOSS" OF THE PERFORMING PORTFOLIO AT 0.58 BPS, COMPARED TO 0.74 BPS AT THE END OF 2016; EXPECTED LOSS OF NEW LOANS DURING THE YEAR AT 0.38 BPS

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✓ **LIQUIDITY INDICATORS**

- TOTAL COUNTERBALANCING CAPACITY EQUAL TO APPROXIMATELY EUR 3.7 BILLION (OF WHICH APPROXIMATELY EUR 2.5 BILLION UNENCUMBERED)[1]
- LCR AT 259% FURTHER IMPROVING IN THE QUARTER WELL ABOVE MINIMUM REGULATORY REQUIREMENTS.

✓ **MAIN STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT DATA**

- Operating income: EUR 508 million (-28.2% y-o-y, incorporating the losses on the sale of loans for EUR 264.8 million)
- Operating costs: EUR 492million (-2.9% y-o-y, in comparable terms[2])
- Net impairment losses on loans and receivables and other financial assets: EUR 405 million (of which EUR 31 million referred to Fondo Atlante)
- Net gains on sales of investments (real estate "sale & lease back" included): EUR 69 million
- Net income for the year: EUR -332 million
- Loans and receivables with customers: EUR 16.7 billion (-4.3% compared to 31 December 2016)
- Direct funding: EUR 19.6 billion (-7% compared to 31 December 2016)
- Indirect funding: EUR 11.3 billion (-3% compared to 31 December 2016)
- "Managed" funds: EUR 7.8 billion (+ 7% compared to 31 December 2016)

Sondrio, 5 February 2018 - The Board of Directors of Credito Valtellinese approved the individual and consolidated preliminary results as at 31 December 2017. The operating trend confirmed to be positive, essentially in line with the first nine months of the year. The result for the year is however influenced 1) by the effects of the extraordinary transactions carried out during the year, aimed at improving the risk profile of the bank, including mainly the sale of the "Elrond" portfolio 2) by a significant increase in adjustment to loans following the application of a new policy for the valuation of impaired financial assets, with a consequent significant increase in overall coverage levels.

[1] At December 27, 2017

[2] Excluding non-recurring charges relating to the Solidarity Fund and retirement incentives for personnel under the trade union agreement of 21 December 2016, ordinary and extraordinary contributions paid to SRF, NRF, DGS and DTA fee.

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PRESS RELEASE

Statement of Financial Position Items

As at 31 December 2017, **loans and receivables with customers** amounted to EUR 16.7 billion compared to EUR 17.4 billion at 31 December 2016. New loans were EUR 2.23 billion, with a clear improvement in the quality of the portfolio (EL "expected loss" on new loans equal to 31 basis point for the "individuals" segment, 53 bps for the "corporate" and 56 bps for the "retail" segment).

At the end of the period, Non-Performing Exposure (NPE), net of impairment losses, was EUR 2.2 billion compared to EUR 3.2 billion at the end of December 2016. The reduction is essentially attributable to disposals made during the period and mainly to the Elrond operation. The coverage ratio of total NPE was 45.3% compared to 41.5% at the end of December 2016.

More specifically, net bad loans totalled EUR 0.7 billion, with a coverage ratio of 62.3%, unlikely to pay of EUR 1.4 billion, with a coverage ratio of 33.6%, whereas past due and/or overdue non-performing loans were little more than EUR 103 million.

Direct funding amounted to EUR 19.6 billion compared to EUR 21.1 billion at the end of December 2016. In particular, there was a negative trend in bond issues and a reduction in more expensive technical forms in favour of managed funds.

Indirect funding amounted to EUR 11.3 billion compared to EUR 11.6 billion at the end of December 2016. Assets "under management" showed a 7% trend, led by an increase in the sale of mutual funds and insurance products.

Financial assets were EUR 4.4 billion. Of these, EUR 3.8 billion were represented by Italian Government bonds, mainly classified in the AFS (Available for sale) portfolio, with a duration of approximately 3.15 years, considering the transactions for interest-rate risk hedging. The valuation reserve on AFS securities, recorded among equity items net of tax effects, was negative for EUR 7.1 million.

The **liquidity position was largely positive**. The counterbalancing capacity up to 3 months amounted to EUR 3.7 billion (of which EUR 2.5 billion unencumbered), equal to 15% of total assets). The exposure to the ECB for TLTRO2 (Targeted Longer-Term Refinancing Operations) refinancing operations stood at EUR 2.5 billion.

The liquidity ratios – LCR and NSFR – were well above the minimum levels set by regulations.

Equity and capital ratios

The equity attributable to the owners of the parent as at 31 December 2017 totalled EUR 1,442 million, compared to EUR 1,753 million as at 31 December 2016. The tangible equity attributable to the owners of the parent as at 31 December 2017 totalled EUR 1,398 million, compared to EUR 1,708 million as at 31 December 2016 and to EUR 1,316 million of 30 September 2017.

In application of the transitional regime ("phased in"), Common Equity Tier 1 (CET1) was equal to EUR 1,374 million, against risk-weighted assets (RWAs), calculated with the standard method, of EUR 12,944 million. Total own funds amounted to EUR 1,623 million.

The phased-in capital ratios were respectively:

- 10.6% for CET1 ratio
- 10.6% for Tier 1 ratio
- 12.5% for Total Capital ratio.

Those requirements were well above the SREP minimum levels, ("Overall Capital Requirements") for the Creval group, notified by the Bank of Italy on 29 March 2017 and respectively:

- 7.75% for CET1 ratio
- 9.25% for Tier 1 ratio
- 11.25% for Total Capital ratio.

Operating results

The **net interest income** stood at EUR 392 million, decreasing by 7% compared to EUR 422 million in 2016, affected by the decrease in volumes and by the spread compression.

The positive trend of net fee and commission income amounted to EUR 292 million, up by 4% year on year, driven by the significant performance of management, trading and consulting fee and commission income (+18.7% year on year). Fees and commissions related to current account management increased by 2.8%, fees and commissions income with regard to payment and collection services were basically stable, whereas those relating to the credit area continued to decrease.

Net trading and hedging expense and loss on sales/repurchases of EUR 200 million was negative and includes gains on sales of instruments of EUR 59.4 million and losses on sales of non-performing loans totalling EUR 264.8 million (of which EUR 242.7 million relating to the Elrond operation).

Operating income totalled EUR 508 million compared to EUR 708 million of the same corresponding period.

Operating costs totalled EUR 492 million compared to EUR 590 million of 2016. Personnel expenses decreased by 3.6%, on a comparable basis[3], incorporating savings related to voluntary contributions (of which a first part in April and then in December) through the Solidarity Fund of the sector, and amounted to EUR 270 million (vs. EUR 346 million of 2016, of which EUR 61 million relating to the Solidarity Fund). Other administrative expenses were EUR 194 million (vs. EUR 210 million in 2016), of which EUR 16 million for the ordinary contribution to the Single Resolution Fund (SRF/DGS). Depreciation/amortisation and net impairment losses on property, equipment and investment property and intangible assets decreased from EUR 34 million of 2016 to EUR 28 million.

Net operating profit reached EUR 16 million, against EUR 117 million in 2016.

[3] Excluding extraordinary charges relating to the Solidarity Fund for personnel under the trade union agreement of 21 December 2016

Net impairment losses on loans and receivables and other financial assets totalled EUR 405 million, against EUR 491 million in 2016, of which:

- EUR 42.2 million related to "system" interventions (EUR 31 million for the write-down of the Atlante fund, EUR 11.2 million following the intervention of the Voluntary Scheme of FITD in favour of Caricesena, Carim and Carismi)
- EUR 185 million, following the application of a new policy for the valuation of impaired financial assets, with a consequent significant increase in overall coverage levels.

Net gains on sales of investments and tangible assets measured at fair value include gains of EUR 70 million of the sale of a portfolio of capital properties as part of the "sale & lease back" transaction concluded at the end of June 2017.

Taking account of provisions for risks and charges of EUR 4 million, the year reported a **negative pre-tax profit from continuing operations** amounting to EUR 324 million.

Considering also income taxes for the year of EUR 4 million and profit attributable to minority interests of EUR 4 million, the **net loss for the financial year** stood at EUR 332 million.

Current-year outlook

The macroeconomic scenario is improving, with favourable short-term growth prospects. The expansion of the Italian economy is also consolidated. The most recent surveys show a return of business confidence to pre-crisis levels and the acceleration of investment expenditure is confirmed, whereas employment continues to increase. The growth in loans to the private non-financial sector continued and corporate lending, mainly manufacturing, increased. The quality of credit continues to improve, encouraged by the consolidation of growth. The flows of new impaired loans are falling below the levels recorded before the crisis, but pressure for the "extraordinary" management of the previous years is still high.

In this context, the bank's activities and prospects for the current year will be guided by the achievement of the objectives of the 2018-2020 Business Plan, approved by the Board of Directors on 7 November 2017.

The Board of Directors resolved not to propose any payment of dividends for the 2017 financial year.

Financial statement highlights and the reclassified consolidated Statement of financial position and Income Statement approved by the Board of Directors are set below. The activities of audit firm are still ongoing. The draft separate and consolidated financial statements as at 31 December 2017 will be submitted to the Board of Directors for approval on 26 March 2018.

GRUPPO BANCARIO
Credito Valtellinese

PRESS RELEASE

Declaration of the Manager in charge of financial reporting

The Manager in charge of financial reporting, Simona Orietti, hereby declares that, pursuant to par. 2 of Art. 154 bis of the Consolidated Finance Act that the accounting information in this press release matches the information reported on the company's documents, books and accounting records.

Signed Simona Orietti

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CONSOLIDATED FINANCIAL HIGHLIGHTS AND ALTERNATIVE PERFORMANCE INDICATORS

STATEMENT OF FINANCIAL POSITION DATA	31/12/2017	31/12/2016	Change
(in thousands of EUR)			
Loans and receivables with customers	16,680,944	17,429,196	-4.29%
Financial assets and liabilities	4,300,828	5,159,559	-16.64%
Total assets	24,956,824	25,469,459	-2.01%
Direct funding from customers	19,631,283	21,108,765	-7.00%
Indirect funding from customers	11,273,213	11,602,693	-2.84%
of which:			
- Managed funds	7,801,592	7,290,205	7.01%
Total funding	30,904,496	32,711,458	-5.52%
Equity	1,442,094	1,753,430	-17.76%

SOLVENCY RATIOS	31/12/2017	31/12/2016
Common Equity Tier 1 capital / Risk-weighted assets (CET1 capital ratio)	10.6%	11.8%
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	10.6%	11.8%
Total own funds / Risk-weighted assets (Total capital ratio)	12.5%	13.0%

Figures at 31/12/2017 calculated provisionally pending the submission to the Supervisory Authority

FINANCIAL STATEMENT RATIOS	31/12/2017	31/12/2016
Indirect funding from customers / Total funding	36.5%	35.5%
Managed funds / Indirect funding from customers	69.2%	62.8%
Direct funding from customers / Total liabilities	78.7%	82.9%
Loans and receivables with customers / Direct funding from customers	85.0%	82.6%
Loans and receivables with customers / Total assets	66.8%	68.4%

CREDIT RISK	31/12/2017	31/12/2016	Change
Net bad loans (in thousands of EUR)	657,512	1,272,106	-48.31%
Other net doubtful loans (in thousands of EUR)	1,540,116	1,881,922	-18.16%
Net non-performing loans (in thousands of EUR)	2,197,628	3,154,028	-30.32%
Net bad loans / Loans and receivables with customers	3.9%	7.3%	
Other net doubtful loans / Loans and receivables with customers	9.2%	10.8%	
Net non-performing loans / Loans and receivables with customers	13.2%	18.1%	
Coverage ratio of bad loans	62.3%	54.4%	
Coverage ratio of other doubtful loans	32.3%	27.6%	
Coverage ratio of non-performing loans	45.3%	41.5%	
Cost of credit (*)	2.15%	2.68%	

(*) Calculated as the ratio between the net impairment losses due to deterioration of loans and year-end loans

CREDIT QUALITY	31/12/2017				31/12/2016			
(thousands of EUR)	Gross amount	Impairment losses	Carrying amount	% coverag e	Gross amount	Impairment losses	Carrying amount	% coverage
Non-performing loans								
Bad loans	1,745,548	-1,088,036	657,512	62.3%	2,787,065	-1,514,959	1,272,106	54.4%
Unlikely to pay	2,162,940	-726,153	1,436,787	33.6%	2,384,056	-700,195	1,683,861	29.4%
Past due non-performing loans	112,347	-9,018	103,329	8.0%	215,783	-17,722	198,061	8.2%
Total non-performing loans	**4,020,835**	**-1,823,207**	**2,197,628**	**45.3%**	**5,386,904**	**-2,232,876**	**3,154,028**	**41.5%**
Performing loans	14,545,619	-62,303	14,483,316	0.43%	14,363,285	-88,117	14,275,168	0.61%
Total loans and receivables with customers	**18,566,454**	**-1,885,510**	**16,680,944**		**19,750,189**	**-2,320,993**	**17,429,196**	

The coverage ratio is calculated as the ratio between impairment losses and gross amount

ORGANISATIONAL DATA	31/12/2017	31/12/2016	Change
Number of employees	3,819	4,055	-5.82%
Number of branches	412	503	-18.09%

OTHER FINANCIAL INFORMATION	2017	2016
Cost/Income ratio (*)	94.2%	69.7%

(*) 2017 figure included the effect of Elrond operation and are calculated net of contributions paid for SRF and DGS (EUR 16,132 thousand), of DTA fees (EUR 2,153 thousand) and of non-recurring profits related to the implementation of the "2016 Solidarity Fund" (EUR 4,525 thousand); 2016 figure calculated net of non-recurring expenses related to the implementation of the “2016 Solidarity Fund” (EUR 60,995 thousand), of ordinary and extraordinary contributions paid to SRF, NRF and DGS (EUR 32,110 thousand) and of DTA fee (EUR 4,200 thousand)

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RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of EUR)

ASSETS	31/12/2017	31/12/2016	Change
Cash and cash equivalents	197,829	170,735	15.87%
Financial assets held for trading	20,681	18,999	8.85%
Available-for-sale financial assets	4,419,352	5,436,165	-18.70%
Loans and receivables with banks	2,033,413	821,748	147.45%
Loans and receivables with customers	16,680,944	17,429,196	-4.29%
Hedging derivatives	199	-	-
Equity investments	24,371	9,559	154.95%
Property, equipment and investment property and intangible assets (1)	439,842	483,816	-9.09%
Non-current assets held for sale and disposal groups	3,955	1,498	164.02%
Other assets (2)	1,136,238	1,097,743	3.51%
Total assets	**24,956,824**	**25,469,459**	**-2.01%**

(1) Include items "120. Property, equipment and investment property" and "130. Intangible assets"
(2) Include items "140. Tax assets" and "160. Other assets"

(in thousands of EUR)

LIABILITIES	31/12/2017	31/12/2016	Change
Due to banks	3,143,189	1,661,670	89.16%
Direct funding from customers (1)	19,631,283	21,108,765	-7.00%
Financial liabilities held for trading	713	1,468	-51.43%
Hedging derivatives	138,691	294,137	-52.85%
Other liabilities	431,330	437,838	-1.49%
Provisions for specific purpose (2)	164,172	208,111	-21.11%
Equity attributable to non-controlling interests	5,352	4,040	32.48%
Equity (3)	1,442,094	1,753,430	-17.76%
Total liabilities and equity	**24,956,824**	**25,469,459**	**-2.01%**

(1) Includes items "20. Due to customers" and "30. Securities issued"
(2) Include items "80. Tax liabilities", "110. Post-employment benefits" and "120. Provisions for risks and charges"
(3) Includes items "140. Valuation reserves", "170. Reserves", "180. Share premium reserve", "190. Capital", "200. Treasury shares", and "220. Loss for the year"

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RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in thousands of EUR)

ITEMS	2017	2016	Change
Net interest income	**391,963**	**421,695**	**-7.05%**
Net fee and commission income	291,758	280,445	4.03%
Dividends and similar income	2,911	4,241	-31.36%
Profit of equity-accounted investments (1)	1,279	878	45.67%
Net trading and hedging income (expense) and profit (loss) on sales/repurchases (6)	(200,227)	(15,782)	N.s.
Other operating net income (5)	20,434	16,236	25.86%
Operating income	**508,118**	**707,713**	**-28.20%**
Personnel expenses	(270,443)	(346,187)	-21.88%
Other administrative expenses (2)	(193,621)	(210,135)	-7.86%
Depreciation/amortisation and net impairment losses on property , equipment and investment property and intangible assets (3)	(28,227)	(33,916)	-16.77%
Operating costs	**(492,291)**	**(590,238)**	**-16.59%**
Net operating profit	**15,827**	**117,475**	**-86.53%**
Net impairment losses on loans and receivables and other financial assets	(404,870)	(491,232)	-17.58%
Net accruals to provisions for risks and charges	(4,031)	10,665	-137.80%
Goodwill impairment losses	-	(68,797)	-100.00%
Net gains on sales of investments and valuation differences on property and equipment at fair value (4)	68,864	31,366	119.55%
Pre-tax loss from continuing operations	**(324,210)**	**(400,523)**	**-19.05%**
Income taxes	(3,989)	71,791	-105.56%
Post-tax loss from continuing operations	**(328,199)**	**(328,732)**	**-0.16%**
Profit for the year attributable to non-controlling interests	(3,650)	(4,371)	-16.50%
Loss for the year	**(331,849)**	**(333,103)**	**-0.38%**

(1) Net gains on equity-accounted investments include net gains (losses) on equity-accounted investments included in item “240. Net gains on investments"; the residual amount of that item is included in gains on sales of investments, together with item 270. “Net gains (losses) on sales of investments"
(2) Other administrative expenses include recoveries of taxes and other recoveries recognised in item "220. Other operating expenses/income" (EUR 49,460 thousand in 2017 and EUR 53,581 thousand in 2016)
(3) The net impairment losses on property and equipment and intangible assets include items "200. Depreciation and net impairment losses on property and equipment", "210. Amortisation and net impairment losses on intangible assets" and the accumulated depreciation of costs incurred for leasehold improvements included in item "220. Other operating expenses/income"(EUR 1,345 thousand in 2017 and EUR 2,025 thousand in 2016)
(4) Net gains on sales of investments include the residual amount of item "240. Profit of investments" not included among profit of equity-accounted investments together with item "270. Net gains on sales of investments" and item “250. Net result of property, equipment and investment property and intangible assets at fair value”
(5) Other income and charges correspond to item 220. “Other operating expenses/income” net of the above reclassifications
(6) Include items “80. Profit (Losses) on trading”, “90. Fair value adjustments in hedge accounting” e “100. Profit (loss) on sale or repurchase of: a) loans and receivables; b) available-for-sale financial assets; c) financial assets held to maturity; d) financial liabilities”

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