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Oggetto	:	Consolidated results at 31 march 2018

Testo del comunicato

Vedi allegato.

GRUPPO BANCARIO Credito Valtellinese

PRESS RELEASE

CONSOLIDATED RESULTS AT 31 MARCH 2018

NPL RATIO AT 19.3%, DECREASING BELOW 20% FOR THE FIRST TIME SINCE DECEMBER 2013

NPL COVERAGE RATIO OF AROUND 59%, BENEFITING FROM THE IMPAIRMENT RECORDED WITHIN THE FTA OF IFRS 9

COST OF CREDIT RISK AT 62 BPS SIGNIFICANTLY IMPROVED COMPARED TO 2017

STRONG CAPITAL POSITION (CET1 RATIO PHASED IN AT 14.4%, WITH AROUND 7.4% BUFFER OVER 2018 MINIMUM SREP). LIQUIDITY RATIO AMONG THE HIGHEST AT SYSTEM LEVEL (LCR EQUAL TO 209%)

PRE-TAX PROFIT ADJUSTED EQUAL TO EUR 15.7 MILLION

✓ **CAPITAL RATIOS**

- HAVING SUCCESSFULLY CONCLUDED THE EUR 700 MILLION CAPITAL INCREASE, THE PHASING IN COMMON EQUITY TIER1 RATIO IS 14.4%
- TANGIBLE BOOK VALUE AT EUR 1,480 MILLION, COMPARED TO EUR 1,398 MILLION AT 31 DECEMBER 2017

✓ **LIQUIDITY INDICATORS**

- *TOTAL COUNTERBALANCING CAPACITY* EQUAL TO APPROXIMATELY EUR 4.3 BILLION (OF WHICH APPROXIMATELY 3.1 BILLION UNENCUMBERED)[1]
- LCR AT 209% FURTHER IMPROVED DURING THE QUARTER, COMFORTABLY HIGHER THAN MINIMUM REGULATORY LEVELS

✓ **CREDIT AND ASSET QUALITY DEVELOPMENTS**

- GROSS IMPAIRED LOANS FURTHER REDUCED FROM 4 BILLION AT THE END OF 2017 TO 3.5 BILLION WITHOUT NON CURRENT ASSETS HELD FOR SALE, NPL RATIO[2] AT 19.3%

[1] As at March 27, 2018

[2] The ratio between loans to customers net of government securities for EUR 1.6 billion has been determined

- SIGNIFICANT INCREASE OF COVERAGE RATIO FROM 45.3% TO 58.9%
- THE SLOWDOWN IN THE FLOW OF PERFORMING LOANS BECOMING NON-PERFORMING CONTINUES
- NEW ISSUE FOR AROUND EUR 557 MILLION WITH FURTHER IMPROVEMENT OF THE EXPECTED LOSS FROM THE PERFORMING PORTFOLIO AT 0.55 BPS

✓ **2018-2020 BUSINESS PLAN**

- ACTIVITIES AIMED AT THE REDUCTION OF COSTS IN LINE WITH THE OBJECTIVES DEFINED BY THE BUSINESS PLAN IN TERMS OF OPERATING EFFICIENCY HAVE BEEN INITIATED: THE AGREEMENT WITH THE TRADE UNIONS FOR THE MANAGEMENT OF REDUNDANCIES HAS BEEN SIGNED, THE OPERATING NETWORK OPTIMISATION PLAN WHICH ANTICIPATE THE CLOSURE OF A FURTHER 50 BRANCHES WITHIN THIS MONTH HAS BEEN DEFINED
- ACTIVITIES AIMED AT IMPROVING NON-PERFORMING LOANS AND IMPROVING ASSET QUALITY CONTINUE ON SCHEDULE: THE AGREEMENTS FOR THE SALE OF TWO PORTFOLIOS OF NON PERFORMING SECURED LOANS HAVE BEEN SIGNED *("PROJECT GIMLI")*

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

- Operating income: EUR 166 million (- 10% y/y)
- Operating costs: EUR 179 million (- 8.2% y/y, in comparable terms[3])
- Impairment losses for credit risk: EUR 28 million (- 42.6% y/y)
- Net result for the period: - EUR 30 million
- Loans to customers: EUR 17.7 billion
- Direct funding: EUR 19.8 billion (+0.8% compared as at 31 December 2017)
- Indirect funding: EUR 10.8 billion (-4.6% compared as at 31 December 2017)
- Managed savings: EUR 7.5 billion (-4% compared as at 31 December 2017)

Sondrio, 8 May 2018 - The Board of Directors of Credito Valtellinese approved the consolidated results as at 31 March 2018.

[3] March 2018 net of provision for Solidarity Fund, DTA commission and contribution to SRF. March 2017 net of DTA commission and contribution to SRF

2018-2020 Business Plan

The initiatives in pursuit of the objectives set in the 2018-2020 Business Plan continue on schedule.

Capital strengthening:

- ✓ The EUR 700 million capital increase has been successfully concluded, with a significant improvement in the capital ratios. Phased-in CET1 ratio is 14.4%

De-risking and asset quality activities:

- ✓ an agreement was signed on 6 April 2018 for the sale of a portfolio of non-performing secured loans, classified as bad and unlikely to pay (UTP), mainly made to real estate companies - for a gross book value ("GBV") of approximately EUR 245 million, against a total value of the portfolio approximately equal to 43% of the GBV.
- ✓ an agreement was reached today for the sale to Credito Fondiario of a portfolio of non-performing secured loans – consisting of credit exposures mainly to real estate companies, classified as UTP and bad loans – for a GBV of EUR 222 million, at a price close to 41% of the GBV. With this transactions the target for the sale of non-performing loan, set for the so-called "Project Gimli" for 2018 is almost completely achieved.
- ✓ Work continues on the deconsolidation of the non-performing loans ("Project Aragorn") for a gross countervalue up to a maximum of EUR 1.6 billion, through a securitisation transaction, with issue of securities and possible use of the government guarantee (GACS) for the senior tranche with investment grade rating. The transaction is expected to be finalised in the first half of 2018, in line with the objectives specified in the Plan;
- ✓ activities aimed at the adoption of advanced AIRB models for the determination of prudential requirements continue, after receipt of the authorisation from the relevant Supervisory Bodies. The inspection of Bank of Italy for the validation of the AIRB models is in ongoing.

Operating efficiency and cost control:

- ✓ On 16th April an agreement was signed with the trade unions for the management of redundancies, through the use of the banking sector's Solidarity Fund. The agreement anticipates an early retirement plan for at least 170 employees who will meet the pension requirements by 31 December 2024 and who will be able to access, on a voluntary basis, the extraordinary services of the Solidarity Fund from 1 July 2018. The agreement will allow estimated savings on the cost of personnel of around EUR 7.5 million in 2018 and EUR 15 million from 2019, against estimated *one–off* charges for the activation of the Fund and early retirement incentives of around EUR 57.5 million (net of NASPI contribution), entirely recorded, in the first quarter, in the Income Statement. The agreement further ensures additional savings linked to specific redefinition interventions for the economic and regulatory treatment of personnel, with a saving of around EUR 13 million.
- ✓ The operating network optimisation plan has been defined, which anticipate the closure of a further 50 branches from 27 May 2018, and the transformation of 4 branch counter positions of the "Bancaperta" line. The total number of branches will therefore be 361, in line with the Business Plan's operating network target of 350 branches at the end of 2018.

Statement of Financial Position Items

As at 31 March 2018, **loans and receivables with customers** were EUR 17.7 billion, of which EUR 1.6 billion were represented by government bonds. Net of this component, the total is decreasing compared to the 16.7 billion as at 31 December 2017. New loans were EUR 557 million, with a clear improvement in the quality of the portfolio (EL "expected loss" on loans equal to 32 basis point for the "individuals" segment, 43 bps for the "corporate" and 46 bps for the "retail" segment).

At the end of the period, Non-Performing Exposure (NPE), net of impairment losses, was EUR 1.5 billion compared to 2.2 billion at the end of December 2017. The coverage rate for overall NPE not reclassified in discontinued activities is 58.9% compared to 45.3% at the end of December 2017.

Specifically, net bad loans are EUR 0.4 billion, with a coverage rate of 76.2%, unlikely to pay exposures are EUR 1 billion, with a coverage rate of 44.9%, while past due non performing exposures are a little over EUR 90 million.

Activities for disposal, equal to EUR 189 million, are mainly represented by non performing exposures ("Project Gimli").

Direct funding was EUR 19.8 billion, up by 0.8% compared to the end of December 2017. The unfavourable performance of bond funding and a further reduction in the more costly technical forms continues.

Indirect funding was EUR 10.8 billion compared to EUR 11.3 billion at the end of December 2017. The "under management" component shows a decrease of 4%.

Financial assets measured at fair value were EUR 3.7 billion. Of these EUR 3.4 billion are represented by government bonds, mainly booked in the Financial assets at fair value through other comprehensive income. The duration is of around 3.08 years, taking into consideration the rate risk hedging. The valuation reserve on Financial assets at fair value through other comprehensive income, recorded among equity items net of tax effects, was positive for EUR 10.1 million.

The liquidity position was largely positive. The counterbalancing capacity at 3 months is equal to EUR 4.3 billion (of which 3.1 billion unencumbered, equal to 12.1% 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 Group's equity at 31 March 2018 is EUR 1,525 million, against EUR 1,442 million at 31 December 2017. The Group's tangible book value at 31 March 2018 is EUR 1,480 million, compared to EUR 1,398 million at 31 December 2017.

The effects of the first application of the International Accounting Standards IFRS9 (FTA) are detailed in a dedicated section of this communication. For the prudential treatment of the same effects, Creval uses a transitional regime introduced by EU Regulation 2395/2017.

In application of the transitional regime ("phased in"), Common Equity Tier 1 (CET1) was equal to EUR 1,971 million, against risk-weighted assets (RWAs), calculated with the standard method, of EUR 13,642 million. Total own funds amounted to EUR 2,208 million.

The phased-in capital ratios were respectively:

- 14.4% for CET1 ratio
- 14.5% for Tier 1 ratio
- 16.2% for Total Capital ratio.

Income statement

In the first quarter of 2018, **net interest income** was EUR 88.6 million, compared to EUR 100 million in the corresponding quarter of 2017 and 97.4 million in the last quarter of 2017. The change was due to the contraction in volumes, as well as the reduced impact of the share portfolio's interests. The change in accounting criteria following the introduction of IFRS9 and of the new Bank of Italy regulation determined an overall benefit of EUR 1.7 million.

The net commissions trend was positive, amounting to EUR 70.6 million, 4% higher on an annual basis, still driven by the significant performance of management, intermediation and consultancy active commissions (+25% on an annual basis). Commission income relating to collection and payment services have remained essentially stable, while those relating to loans and to the management of current accounts are still decreasing.

Trading, hedging and sale/repurchase activity produced a net profit of EUR 5.3 million.

Operating income was EUR 166 million compared to EUR 185 million in the comparison period.

Operating costs were EUR 179 million compared to EUR 131 million in the corresponding 2017 period. Personnel expenses amount to EUR 122 million and include non-recurring charges of EUR 57.5 million for the banking sector's Solidarity Fund 2018 following the agreement with the trade unions signed on 16 April. Net of this component, personnel expenses show a 14% reduction, incorporating the savings due to voluntary redundancies through the sector's Solidarity Fund last year. Other administrative expenses were EUR 51 million (vs. EUR 48 million in the first quarter of 2017), of which EUR 9.1 million for the ordinary contribution to the Single Resolution Fund (SRF).

Net operating profit reached EUR 13.5 million, against EUR 54 million in the first quarter of 2017.

Impairment or reversal of impairment and modification losses – determined on the basis of the IFRS 9 accounting standard and therefore not comparable for the same period last year - amount to EUR 28 million.

Taking into account net accruals to provisions for risks and charges for EUR 5 million, the **pre tax loss from continuing operations** is negative for EUR 46 million. Without taking into account the charges relating to the Solidarity Fund and other extraordinary items, the pre-tax profit is equal to 15.7 million, with a significant increase compared to the first quarter of 2017 (EUR 3.4 million).

Income taxes of the period are positive for EUR 17 million. After deduction for third parties, the **net result for the period** is negative for EUR 30 million.

Current-year outlook

The global economy continues to grow in spite of the growth in risks linked to trade restrictions on a large scale. Growth in the Eurozone remains steady. The expansion of economic activities also continues in Italy. Consumer and business confidence indicators however have remained on cyclical high levels, compatible with the continuation of growth. Companies have confirmed positive signals in relation to investment intentions. The labour market has continued to strengthen in the first few months of 2018 even though wage trends are still restrained.

With regard to the banking system, corporate credit, in particular in relation to manufacturing and service industries, has shown indications of a more decisive expansion, also due to the effect of increased demand. There has been an improvement in Italian banks' conditions, which highlight an improvement in the quality of credit, growing profitability, also in the foreseeable future, and stronger capital ratios. The need of interventions for the "extraordinary" management of past operations however remains a priority.

In this context, the activities of the bank and the outlook for the current financial year will be driven by the objectives in the 2018-2020 Business Plan, approved by Board of Directors on 7 November 2017.

Company contacts

Investor relations
Telephone + 39 02 80637471
Email: investorrelations@creval.it

Media relations
Telephone + 39 02 80637403
Email: mediarelations@creval.it

CONSOLIDATED FINANCIAL HIGHLIGHTS AND ALTERNATIVE PERFORMANCE INDICATORS

STATEMENT OF FINANCIAL POSITION DATA	31/03/2018	31/12/2017	Change
(in thousands of EUR)			
Loans and receivables with customers	17,724,314	16,680,944	6.25%
Financial assets and liabilities measured at fair value	3,559,784	4,300,828	-17.23%
Total assets	25,620,679	24,956,824	2.66%
Direct funding from customers	19,793,800	19,631,283	0.83%
Indirect funding from customers	10,757,683	11,273,213	-4.57%
of which:			
- Managed funds	7,487,604	7,801,592	-4.02%
Total funding	30,551,483	30,904,496	-1.14%
Equity	1,524,732	1,442,094	5.73%

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SOLVENCY RATIOS	31/03/2018	31/12/2017
Common Equity Tier 1 capital / Risk-weighted assets (CET1 capital ratio)	14.4%	10.6%
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	14.5%	10.6%
Total own funds / Risk-weighted assets (Total capital ratio)	16.2%	12.5%

Figures calculated provisionally pending the submission to the Supervisory Authority.

FINANCIAL STATEMENT RATIOS	31/03/2018	31/12/2017
Indirect funding from customers / Total funding	35.2%	36.5%
Managed funds / Indirect funding from customers	69.6%	69.2%
Direct funding from customers / Total liabilities	77.3%	78.7%
Loans and receivables with customers / Direct funding from customers	89.5%	85.0%
Loans and receivables with customers / Total assets	69.2%	66.8%

CREDIT RISK	31/03/2018	31/12/2017	Change
Net bad loans (in thousands of EUR)	400,765	657,512	-39.05%
Other net doubtful loans (in thousands of EUR)	1,054,296	1,540,116	-31.54%
Net non-performing loans (in thousands of EUR)	1,455,061	2,197,628	-33.79%
Net bad loans / Loans and receivables with customers	2.3%	3.9%	
Other net doubtful loans / Loans and receivables with customers	5.9%	9.2%	
Net non-performing loans / Loans and receivables with customers	8.2%	13.2%	
Coverage ratio of bad loans	76.2%	62.3%	
Coverage ratio of other doubtful loans	43.1%	32.3%	
Coverage ratio of net non-performing loans	58.9%	45.3%	
Cost of credit (*)	0.62%	2.15%	

Loans and receivables with customers classified under non-current assets held for sale and disposal groups are not included.
(*) Calculated as the ratio between the net impairment losses on Loans and receivables with customers and year-end Loans and receivables with customers.

CREDIT QUALITY	31/03/2018				31/12/2017			
	Gross amount	Impairment losses	Carrying amount	% coverage	Gross amount	Impairment losses	Carrying amount	% coverage
Non-performing loans								
Bad loans	1,683,023	-1,282,258	400,765	76.2%	1,745,548	-1,088,036	657,512	62.3%
Unlikely to pay	1,745,820	-783,398	962,422	44.9%	2,162,940	-726,153	1,436,787	33.6%
Past due non-performing loans	107,744	-15,870	91,874	14.7%	112,347	-9,018	103,329	8.0%
Total non-performing loans	**3,536,587**	**-2,081,526**	**1,455,061**	**58.9%**	**4,020,835**	**-1,823,207**	**2,197,628**	**45.3%**
Performing exposures	16,381,743	-112,490	16,269,253	0.69%	14,545,619	-62,303	14,483,316	0.43%
Total loans and receivables with customers	**19,918,330**	**-2,194,016**	**17,724,314**		**18,566,454**	**-1,885,510**	**16,680,944**	

Loans and receivables with customers classified under non-current assets held for sale and disposal groups are not included.
The coverage ratio is calculated as the ratio between impairment losses and gross amount.
(*) At 31th March 2018 the amount includes Government bond for a gross amount of EUR 1.577.769 thousand

ORGANISATIONAL DATA	31/03/2018	31/12/2017	Change
Number of employees	3,884	3,819	1.70%
Number of branches	412	412	-

OTHER FINANCIAL INFORMATION	Q1 2018	Q1 2017
Cost/Income ratio (*)	67.7%	66.2%

(*)2018 Q1 figure calculated net of non-operating expenses related to the contributions for SRF for EUR 9,096 thousand, DTA fee for EUR 525 thousand and the "Solidarity Fund 2018" for EUR 57,518 thousand; 2017 Q1 figure calculated net of non-operating expenses related to the contributions for SRF for EUR 7,906 thousand and DTA fee for EUR 530 thousand

GRUPPO BANCARIO
Credito Valtellinese

PRESS RELEASE

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

The period of comparison, financial year 2017, has been shown again in a reclassified form based on the new accounting tables in the 5th update of the Banca d'Italia Circular no. 262/05. The accounting sums for the year ended 31/12/2017 have been traced back to the new accounting items without applying the new logics of classification and measurement. The notes provide a reconciliation table.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of EUR)

ASSETS	31/03/2018	31/12/2017	Change
Cash and cash equivalents	145,589	197,829	-26.41%
Financial assets at fair value through profit or loss	210,870	20,681	n.s.
Financial assets at fair value through other comprehensive income	3,490,659	4,419,352	-21.01%
Loans and receivables with banks	2,320,285	2,033,413	14.11%
Loans and receivables with customers	17,724,314	16,680,944	6.25%
Hedging derivatives	269	199	35.18%
Equity investments	24,808	24,371	1.79%
Property, equipment and investment property and intangible assets (1)	484,599	486,524	-0.40%
Non-current assets held for sale and disposal groups	188,629	3,955	n.s.
Other assets (2)	1,030,657	1,089,556	-5.41%
Total assets	**25,620,679**	**24,956,824**	**2.66%**

(1) Include items "90. Property, equipment and investment property" and "100. Intangible assets".
(2) Include items "110. Tax assets" and "130. Other assets".

(in thousands of EUR)

LIABILITIES	31/03/2018	31/12/2017	Change
Due to banks	3,060,671	3,143,189	-2.63%
Direct funding from customers (1)	19,793,800	19,631,283	0.83%
Financial liabilities held for trading	4,394	713	n.s.
Hedging derivatives	137,620	138,691	-0.77%
Other liabilities	860,437	421,399	104.19%
Provisions for specific purpose (2)	235,664	174,103	35.36%
Equity attributable to non-controlling interests	3,361	5,352	-37.20%
Equity (3)	1,524,732	1,442,094	5.73%
Total liabilities and equity	**25,620,679**	**24,956,824**	**2.66%**

(1) Includes item "10. Financial liabilities measured at amortised cost: b) due to customers; c) Securities issued".
(2) Include items "60. Tax liabilities", "90. Post-employment benefits" and "100. Provisions for risks and charges".
(3) Includes items "120. Valuation reserves", "150. Reserves", "160. Share premium reserve", "170. Capital", "180. Treasury shares", and "200. Profit for the period".

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in thousands of EUR)

ITEMS	Q1 2018	Q1 2017	Change
Net interest income	**88,594**	**99,725**	**-11.16%**
Net fee and commission income	70,600	67,670	4.33%
Dividends and similar income	660	290	127.59%
Profit of equity-accounted investments (1)	441	174	153.45%
Net trading, hedging income (expense) and profit (loss) on sales/repurchases (2)	5,344	12,092	-55.81%
Other operating net income (3)	241	4,905	-95.09%
Operating income	**165,880**	**184,856**	**-10.27%**
Personnel expenses	(121,906)	(75,122)	62.28%
Other administrative expenses (4)	(51,257)	(48,217)	6.30%
Depreciations/amortisations and net impairment losses on property, equipment and investment property and intangible assets (5)	(6,227)	(7,399)	-15.84%
Operating costs	**(179,390)**	**(130,738)**	**37.21%**
Net operating profit	**(13,510)**	**54,118**	**-124.96%**
Impairment or reversal of impairment and modification gains (losses) (6)	(27,801)	(48,418)	-42.58%
Net accruals to provisions for risks and charges	(5,024)	(559)	n.s.
Net losses on sales of investments and valuation differences on property and equipment at *fair value* (7)	(36)	(18)	100.00%
Pre-tax profit (loss) from continuing operations	**(46,371)**	**5,123**	n.s.
Income taxes	17,037	(1,676)	n.s.
Post-tax profit (loss) from continuing operations	**(29,334)**	**3,447**	n.s.
Profit for the period attributable to non-controlling interests	(752)	(1,089)	-30.95%
Profit (loss) for the period	**(30,086)**	**2,358**	n.s.

(1) Net gains on equity-accounted investments include net gains (losses) on equity-accounted investments included in item “250. Net gains on equity investments"; the residual amount of that item is included in gains on sales of investments, together with item 280. “Net gains (losses) on sales of investments"
(2)Includes item “80. Profit (Losses) on trading”, “90. Fair value adjustments in hedge accounting”, “100. Profit (loss) on sale or repurchase of: a) financial assets at amortised cost; b) financial assets at fair value through other comprehensive income; c) financial liabilities” and “110. Profits (Losses) on other assets and liabilities at fair value through profit or loss: b) other financial assets mandatorily measured at fair value through profit or loss”
(3) Other income and charges correspond to item 230 “Other operating expenses/income” net of the explained reclassifications
(4) Other administrative expenses include recoveries of taxes and other recoveries recognised in item "230. Other operating expenses/income" (EUR 10,704 thousand in Q1 2018 and EUR 12,811 thousand in Q1 2017);
(5) The net impairment losses on property and equipment and intangible assets include items "210. Depreciation and net impairment losses on property and equipment", "220. Amortisation and net impairment losses on intangible assets" and the accumulated depreciation of costs incurred for leasehold improvements included in item "230. Other operating expenses/income"(EUR 249 thousand in Q1 2018 and EUR 374 thousand in Q1 2017)
(6) Include items “130. Impairment or reversal of impairment on; a) financial assets at amortised cost; b) financial assets at fair value through other comprehensive income” and “140. Modification gains (losses)”
(7) Net gains on sales of investments include the residual amount of item 250. “Net gains on equity investments” not included among net gains on equity-accounted investments, together with item "280. Net gains on sales of investments"" and item “260. Net result of property, equipment and investment property and intangible assets at fair value”

NOTES

The statement of financial position as of 31 March 2018, shows the standing of Credito Valtellinese and the companies directly and indirectly controlled by it, or the companies in which Credito Valtellinese directly holds the majority of shares or a shareholding less than the absolute majority that in any event allows it to manage the important assets of the company in which it holds shares.

The Group accounting policies used for preparing the information provided, with reference to the registration, valuation and deletion criteria for each asset and liability item, as with the recognition methods for revenue and costs, remained the same as those used for the financial statements at 31 December 2017, except for the accounting policies linked to the introduction of the new international accounting principles in effect as of 1 January 2018. Specifically, the IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with the Clientele” are referenced, the effects of which are summarised below.

The statement of financial position was not submitted for audit by an independent auditor.

First application of the IFRS 9 international accounting principle – Financial Instruments

IFRS 9 “Financial Instruments”, issued by the IASB in July 2014 and approved by the European Commission with Regulation (EU) 2016/2067 as of 1 January 2018, replaces IAS 39 “Financial Instruments: Detection and Measurement”. The principle redefines the means of classification and measurement of the financial instruments, the logics and means of calculation of the impairment losses and accounting of the coverage transactions.

With reference to “Classification and measurement” of the financial assets, the principle introduces a business model based on the contractual characteristics of the cash flows of the financial instrument to be verified through a specific process.

The standard proposes three means of classification of the financial assets to which the relative valuation approaches are linked: Financial assets at the amortised cost, Financial assets at fair value through other comprehensive income, and Financial assets at fair value through profit or loss. The application of the classification and valuation approaches linked to it depends on the business model on the basis of which the financial instruments and characteristics relative to the contractual financial flows of the instrument are managed. In particular, financial assets may be registered in the first two categories only if they give rise to financial flows that are exclusively so-called “*solely payment of principal and interest*” – “SPPI test”). Equity instruments not held for purposes of trading are always registered in the third category and measured at fair value through profit or loss, unless the bank chooses to classify them in the financial assets at fair value through other comprehensive income; in this case, the changes in value show up in an equity reserve, which will never be transferred to the income statement, not even if the financial instrument is sold. This choice is made during the initial registration and is not revocable.

The classification and measurement rules for financial liabilities set by IFRS 9 do not make any major changes compared to the requirements of 39, except for the accounting processing of the cumulative fair value variations linked to one's own credit risk in the event of financial liabilities designated at fair value.

With reference to the impairment of the financial assets, the principle requires that for the financial assets not valued at fair value through profit or loss, the impairment losses are determined based on the expected losses at 12 months and if there is a significant increase in the credit risk compared to the initial date of measurement on the basis of the expected loss determined over the remaining life of the financial instrument. Thus, a model based on the concept of expected loss replacing the “incurred loss” required by the IAS 39 is introduced. The financial instruments are classified into three distinct stages:

- the first stage includes the non-impaired financial instruments for which a significant increase in credit risk with respect to the initial measurement date was not observed. The impairment is collectively determined based on “12 months - expected credit loss”;

- the second stage includes the non-impaired financial instruments for which a significant increase in credit risk with respect to the initial measurement date was observed. The impairment is collectively determined based on "lifetime expected credit loss";
- the third stage includes the impaired financial instruments. The impairment is determined based on "lifetime expected credit loss".

The introduction of the new impairment rules also entails including the expected loss of forward looking information linked, among other things, to the evolution of the macroeconomic scenario in the calculation.

Concerning hedge accounting, the new model on coverages aligns the accounting representation with activity typical of risk management and bolsters the disclosure of risk management activities. The principle includes the opportunity to maintain the rules in IAS 39 for the accounting of the hedge transactions.

Below are the main areas of impact deriving from the first application of the IFRS 9.

Classification and Measurement

Concerning "Classification and Measurement" of the financial assets, the restatement of the business model during the first application (FTA) entailed transferring some certificates classified as of 31/12/2017 as assets available for sale in the financial assets at amortised cost.

For the definition of the financial assets portfolio at the amortised cost, the thresholds have been set for considering frequent, but not major, sales, or infrequent although for a major sum, allowed.

Concerning equity instruments, shares classified in the category of financial assets available for sale as set forth in IAS 39 were identified for which to exercise the option of classification at fair value through other comprehensive income (without reversal to the income statement even if the instrument is sold).

For that which concerns the SPPI test, the group set out the method to be used in conducting it and the test activities were completed on the loans and shares portfolio in order to identify its proper classification at the time of first application of the new principle. In relation to the loans portfolio, differentiated analyses were carried out by type of loan and by class of product. The results may be deemed in line with those deriving from the application of IAS 39. For that which concerns the securities department, the failure of the SPPI test entailed reclassification of certain financial instruments previously classified as loans and receivables with customers in the category of financial assets at fair value through profit or loss for a not very significant percentage compared to the overall portfolio. Based on the recent clarifications provided by IFRIC, however the investment funds classified as financial assets available for sale as of 31/12/2017 must mandatorily be valued at fair value through profit or loss. For the financial liabilities department, impacts from application of IFRS 9 were not encountered.

Impairment

In this area, specific analyses were performed for operating in loans and securities. The application of the IFRS 9 framework required the need to define the risk metrics against a lifetime horizon conditional to the expectations on the foreseen macroeconomic scenarios. To this end, the group defined new parameters and saw to its implementation. The main elements that will lead to passage from the first to the second stage have been defined; specifically, reference will be made to the variation of the default lifetime probabilities in comparison to the time of initial registration of the financial instrument determined based on the credit quality of each individual relationship at each date of valuation. Furthermore, anything overdue for at least 30 days and/or forbearance measures were considered, presumably, indicators of a significant increase in the credit risk and entail going to the second stage. Models including forward-looking information were created for calculating the 12 months - expected credit loss and the lifetime expected credit loss.

In particular, the following were addressed: the evolution of the model for defining the stage it belongs to relative to use of the default lifetime probabilities variation as a main indicator of impairment, specifically the estimate of the credit risk increase significance thresholds, with inclusion of the variation of the default lifetime probabilities and the method of inclusion of the scenarios; the development of the macroeconomic scenarios inclusion method (for the purposes of staging and calculation of the expected credit loss). Concerning this last aspect, alternative methods were analysed, and also considering the criterion of proportionality, the Group will use the approach of the so-called "*Most likely scenario+add on*". This approach involves determining the expected loss in the base scenario deemed most probable and used for other purposes (for example, for the purposes of budget and planning) to which a correction is added (so-called add on) to reflect the effects of any non-linearity of the expected credit loss with respect to the macroeconomic scenarios.

With respect to the securities, we availed of external providers to determine the expected credit loss. The "first-in-first-out" or "FIFO" method was used to calculate the reallocation to the income statement of the registered expected loss in case of sales or reimbursements.

For some categories of residual loans the "low credit risk redemption" was used; based on this, the loans in question were deemed in stage 1, since as of the date of transition they had a rating equal to or greater than "investment grade".

There weren't any changes in the classification criteria for non-performing loans in the third stage considering the alignment of the accounting and prescribed default definitions already present.

The analysis activities were conducted to recognise the impact of inclusion of the forward-looking factors that reconcile the weighted probabilities of occurrence of the different future scenarios in the valuations of the loans classified in the third stage. Specifically, alternative collection scenarios were considered like the sale of portfolios of non-performing loans in relation to the corporate objectives to reduce the non-performing financial assets in the 2018-2020 Business Plan, to which a realisation probability must be attributed, to be considered in the overall scope of valuation.

Hedge Accounting

With reference to hedge accounting, a close examination of the principle was carried out identifying the main novelties and analysing the opportunity to keep using the provisions of IAS 39 (opt-in/opt-out option under the Accounting Principle). Based on these analyses and the operations in place during first application of IFRS 9, the group exercised the opt-out option. The coverage operations thus continue to be managed following that set forth by IAS 39.

Other information

Also, the group avails of the exemption from the obligation, on uniform bases, to re-explain the comparison data in the financial statements of first application of the new principle under IFRS 9 par. 7.2.15 and by paragraphs E1 and E2 of IFRS 1. Banca d'Italia issued the 5th update of Circular 262 "The bank financial statements: patterns and rules for filling it out" which transposes IFRS 9 with the consequent changes introduced in other international accounting principles, including IFRS 7 "Financial instruments: integrative information", and also takes into account the new international accounting principle IFRS 15 "Revenue from Contracts with the Clientele". Upon issuing this update, it is required that the banks that avail of the exemption from the obligation to redetermine the comparative values must include - in the first financial statements drawn up on the basis of this update - a reconciliation table that highlights the method used and provides a reconciliation between the data of the last financial statements approved and the first financial statements drawn up based on the new provisions. The form and content of this information is independently up to the competent corporate bodies.

On the day 12 December 2017, Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" was issued introducing the new article 473bis "Introduction of IFRS 9" in Regulation 575/2013. This article gives the banks a chance to mitigate the impacts on their own funds from the introduction of the new rules on impairment under IFRS 9 in a transitory period of 5 years, sterilising the impact in CET1 by applying percentages that decrease over time. The group chose to adopt the provisions contained in this article both with reference to the impact resulting from the comparison between the IAS 39 impairment losses existent as of 31/12/2017 and the IFRS 9 appearing as of 1/1/2018 which, with reference to the major impairment losses on stage 1 and 2 appearing at the end of the period of reference with respect to the same impairment losses appearing as of 1/1/2018.

The effects of the first application of IFRS 9

Below is a table of reconciliation between the Consolidated Statement of Financial Position included in the Consolidated Financial Statements as of 31/12/2017 and the Consolidated Statement of Financial Position introduced by the 5th update of the Circular of Banca d'Italia no. 262/05, which assimilates the adoption of IFRS 9. From this viewpoint, the accounting sums for the year ended 31/12/2017 according to IAS 39 have been traced back to the new accounting items without applying the new logics of classification and measurement.

(in thousands of EUR)

Statement of Financial Position Items included in the 2017 Financial Statements-Assets	Statement of Financial Position Items "5th update of Circular no. 262/05"-Assets	31/12/2017
10. Cash and cash equivalents		197,829
	10. Cash and cash equivalents	197,829
20. Financial assets held for trading		20,681
	20. Financial assets valued at fair value with impact in the income statement a) assets held for trading	20,681
40. Available-for-sale financial assets		4,419,352
	30. Financial assets valued at fair value with impact on overall profitability	4,419,352
60. Loans and receivables with banks		2,033,413
	40. Financial assets value at the amortised costs a) loans and receivables with banks	2,033,413
70. Loans and receivables with customers		16,680,944
	40. Financial assets value at the amortised cost b) customer accounts receivables	16,680,944
80. Hedging derivatives		199
	50. Hedging derivatives	199
100. Equity investments		24,371
	70. Equity investments	24,371
120. Property, equipment and investment property		395,251
	90. Material assets	395,251
130. Intangible assets		44,591
	100. Intangible assets	44,591
140. Tax assets: a) current		80,987
	110. Tax assets: a) current	80,987
140. Tax assets: b) deferred		595,643
	110. Tax assets: b) deferred	595,643
150. Non-current assets held for sale and disposal groups		3,955

	120. Non-current assets held for sale and disposal groups	3,955
160. Other assets		459,608
	130. Other assets	412,926
	90. Property	46,682
Total assets	**Total assets**	**24,956,824**

(in thousands of EUR)

Statement of Financial Position Items included in the 2017 Financial Statements-Liabilities	Statement of Financial Position Items "5th update of Circular no. 262/05"-Liabilities	31/12/2017
10. Due to banks		3,143,189
	10. Financial liabilities valued at the amortised cost a) due to banks	3,143,189
20. Due to customers		16,841,601
	10. Financial liabilities valued at the amortised cost b) due to customers	16,841,601
30. Securities issued		2,789,682
	10. Financial liabilities valued at the amortised cost c) securities issued	2,789,682
40. Financial liabilities held for trading		713
	20. Financial liabilities held for trading	713
60. Hedging derivatives		138,691
	40. Hedging derivatives	138,691
80. Tax liabilities: a) current		2,184
	60. Tax liabilities: a) current	2,184
80. Tax liabilities: b) deferred		179
	60. Tax liabilities: b) deferred	179
100. Other liabilities		431,330
	80. Other liabilities	421,399
	100. Provisions for risks and charges: a) commitments and guarantees issued	9,931
110. Post-employment benefits		46,546
	90. Post-employment benefits	46,546
120. Provisions for risks and charges: a) pension and similar obligations		33,520
	100. Provisions for risks and charges: b) pension and similar obligations	33,520
120. Provisions for risks and charges: b) other provisions		81,743
	100. Provisions for risks and charges: c) other provisions for risks and charges	81,743

140. Valuation reserves		-12,145
	120. Valuation reserves	-12,145
170. Reserves		-60,629
	150. Reserves	-60,629
190. Share capital		1,846,817
	170. Share capital	1,846,817
200. Treasury shares (-)		-100
	180. Treasury shares (-)	-100
210. Equity attributable to non-controlling interests (+/-)		5,352
	190. Equity attributable to non-controlling interests (+/-)	5,352
220. Loss for the year (+/-)		-331,849
	200. Loss for the year (+/-)	-331,849
Total liabilities and equity	**Total liabilities and equity**	**24,956,824**

Below is a table of reconciliation between the consolidated income statement for the first quarter of 2017 prepared based on the scheme required in 2017 and the income statement introduced by the 5th update of the Circular of Banca d'Italia no. 262/05, which assimilates the adoption of IFRS 9. From this viewpoint, the accounting sums for the first quarter of 2017 determined according to IAS 39 have been traced back to the new accounting items without applying the new logics of measurement.

(in thousands of EUR)

Consolidated income statement items	Consolidated income statement items "5th update of the Circular no. 262/05"	Q1 2017
10. Interest and similar income		134,257
	10. Interest and similar income	134,257
20. Interest and similar expense		(34,532)
	20. Interest and similar expense	(34,532)
30. Net interest income		**99,725**
	30. Net interest income	**99,725**
40. Fee and commission income		74,527
	40. Fee and commission income	74,527
50. Fee and commission expense		(6,857)
	50. Fee and commission expense	(6,857)
60. Net fee and commission income		**67,670**
	60. Net fee and commission income	**67,670**
70. Dividends and similar income		290
	70. Dividends and similar income	290
80. Profit (Losses) on trading		1,629
	80. Profit (Losses) on trading	1,629
90. Fair value adjustments in hedge accounting		8
	90. Fair value adjustments in hedge accounting	8

100. Net gains (losses) on sales or repurchase of: a) loans and receivables		(17)
	100. Net gains (losses) on sales or repurchase of: a) financial assets valued at the amortised cost	(17)
100. Net gains (losses) on sales or repurchase of: b) available-for-sale financial assets		10,628
	100. Net gains (losses) on sales or repurchase of: b) financial assets valued at fair value with impact on overall profitability	10,628
100. Net gains (losses) on sales or repurchase of: d) financial liabilities		(156)
	100. Net gains (losses) on sales or repurchase of: c) financial liabilities	(156)
120. Total income		**179,777**
	120. Total income	**179,777**
130. Net impairment losses on: a) loans and receivables		(47,279)
	130. Net impairment losses for credit risk on: a) financial assets valued at the amortised cost	(47,279)
130. Net impairment losses on: b) available-for-sale financial assets		(1,139)
	130. Net impairment losses for credit risk on: a) financial assets valued at fair value with impact on overall profitability	(1,139)
130. Net impairment losses on: d) other financial transactions		507
	200. Net accruals to provisions for risks and charges: a) commitments and guarantees issued	507
140. Net financial income		**131,866**
	150. Net financial income	**131,359**
180. Administrative expenses: a) personnel expenses		(75,122)
	190. Administrative expenses: a) personnel expenses	(75,122)
180. Administrative expenses: b) other administrative expenses		(61,028)
	190. Administrative expenses: b) other administrative expenses	(61,028)
190. Net accruals to provisions for risks and charges		(1,066)
	200. Net accruals to provisions for risks and charges b) other net accruals	(1,066)
200. Depreciation and net impairment losses on property, equipment and investment property		(5,099)
	210. Depreciation and net impairment losses on property, equipment and investment property	(5,099)
210. Amortisation and net impairment losses on intangible assets		(1,926)
	220. Amortisation and net impairment losses on intangible assets	(1,926)
220. Other operating net income		17,342
	230. Other operating net income	17,342
230. Operating costs		**(126,899)**

	240. Operating costs	**(126,392)**
240. Net gains on equity investments		174
	250. Net gains on equity investments	174
270. Net gains (losses) on sales of investments		(18)
	280. Net gains (losses) on sales of investments	(18)
280. Pre-tax profit from continuing operations		**5,123**
	290. Pre-tax profit from continuing operations	**5,123**
290. Income taxes		(1,676)
	300. Income taxes	(1,676)
300. Post-tax profit from continuing operations		**3,447**
	310. Post-tax profit from continuing operations	**3,447**
330. Profit for the period attributable to non-controlling interests		(1,089)
	340. Profit for the period attributable to non-controlling interests	(1,089)
340. Profit for the period attributable to the owners of the parent		**2,358**
	350. Profit for the period attributable to the owners of the parent	**2,358**

The impacts deriving from application of the new rules for the classification and measurement of the financial assets come from:

- the reclassification of financial assets available for sale measured at fair value through other comprehensive income in the portfolio of the financial assets at fair value through profit or loss (Shares of OICR and equity instruments for which the option of classification at fair value through other comprehensive income was not exercised). Therefore a positive first application reserve is found in net worth for a gross sum of 8 million euros. This sum was already stated as of 31/12/2017 in the valuation reserves;
- the reclassification of financial assets available for sale in Financial Assets at the amortised cost entailed the redetermination of the gross book value and the cancellation of the corresponding valuation reserve (gross AFS Reserve for -16.1 million euros).

The impacts deriving from the application of the new rules on impairment come from:

- the determination of greater impairment losses on the non-impaired financial assets at amortised cost for a sum equal to 57.4 million euros mainly deriving from the classification of the loans in stage 2 with consequent calculation of the expected loss for the entire remaining duration of the financial assets as well as the application of the 12-months expected loss for the loans classified in stage 1 and from the inclusion in the expected losses of forward looking parameters based on future macroeconomic scenarios in the calculation;
- the determination of greater impairment losses on commitments and guarantees given for a sum equal to 5.4 million euros recognized in Provisions for risks and charges mainly deriving from the classification of the loans in stage 2 with consequent calculation of the expected loss for the entire remaining duration of the financial assets as well as the application of 12-months expected loss for the loans classified in stage 1 and from the inclusion in expected losses of forward looking parameters based on future macroeconomic scenarios in the calculation;
- the determination of greater impairment losses on the financial assets at fair value through other comprehensive income for 0.6 million euros that can be traced back to the application of the 12-months expected loss for the loans classified in stage 1 and from the inclusion in expected losses of

forward looking parameters in the calculation;

- the determination of greater impairment losses on non-performing financial assets valued at the amortised cost for 520.4 million euros mainly due to the inclusion in the sales scenarios consistent with the company objectives to reduce the non-performing financial assets in the 2018-2020 Business Plan (for a part of the non-performing loan portfolio with transferable characteristics).

On the above-described impacts any deferred tax asset from tax losses has been recognised in consideration of the outcomes of the probability tests conducted that in 2017 that did not allow the registration of a part of deferred tax assets from tax losses. The tax effects considered and recognised in equity are for the measurement or cancellation of deferred tax assets that derive from temporary differences. With reference to the impacts relative to the classification and measurement, there are tax effects for a total sum of -4.7 million euros. With reference to impairment, there are tax effects for a total sum of 1.5 million euros.

Below is the reconciliation between Statement of Financial Position as of 31 December 2017, shown again based on the 5th update of the Circular of Banca d'Italia no. 262/05 and the same document as of 1 January 2018, including the effects of first application as described above.

(in thousands of EUR)

		Reclassifications/Variations in value		
ASSETS	**31/12/2017**	**Classification and Measurement**	**Impairment**	**01/01/2018**
Cash and cash equivalents	197,829	-	-	197,829
Financial assets at fair value through profit or loss	20,681	186,825	-	207,506
Financial assets at fair value through other comprehensive income	4,419,352	-735,061	-	3,684,291
Loans and receivables with banks	2,033,413	-	-722	2,032,691
Loans and receivables with customers	16,680,944	564,376	-577,079	16,668,241
Hedging derivatives	199	-	-	199
Equity investments	24,371	-	-	24,371
Property, equipment and investment property and intangible assets (1)	486,524	-	-	486,524
Non-current assets held for sale and disposal groups	3,955	-	-	3,955
Other assets (2)	1,089,556	-4,665	1,530	1,086,421
Total assets	**24,956,824**	**11,475**	**-576,271**	**24,392,028**

(1) Include items "90. Property, equipment and investment property and "100. Intangible assets"

(2) Include items "110. Tax assets "130. Other assets"

ASSETS	31/12/2017	Reclassifications/Variations in value		01/01/2018
		Classification and Measurement	Impairment	
Due to banks	3,143,189	-	-	3,143,189
Direct funding from customers (1)	19,631,283	-	-	19,631,283
Financial liabilities held for trading	713	-	-	713
Hedging derivatives	138,691	-	-	138,691
Other liabilities	421,399	-	-	421,399
Provisions for specific purpose (2)	174,103	-	5,364	179,467
Equity attributable to non-controlling interests	5,352	-	-1,383	3,969
Equity (3)	1,442,094	11,475	-580,252	873,317
Total liabilities and equity	**24,956,824**	**11,475**	**-576,271**	**24,392,028**

(1) Includes items "10. Financial liabilities measured at amortised cos b) Due to customers" and "c Securities issued".
(2) Includes items "60. Tax liabilities, "90. Post-employment benefits" and "100. Provisions for risks and charges"
(3) Includes items "120. Valuation reserves", "150. Reserves", "160. Share premium reserve", "170 Capital", "180 Treasury shares and "200 Financial year profit (loss)"

Lastly we have the reconciliation scheme between the Consolidated Equity as of 31/12/2017 in the Consolidated Financial Statements as of 31 December 2017, and the Consolidated Equity of aperture as of 1/1/2018, after the transition to IFRS 9, which once again shows the effects commented above.

Consolidated Equity as of 31/12/2017	1,442,094
Classification and Measurement	
Financial assets at amortised cost	16,140
Impairment	
Financial assets at amortised cost	-577,801
Provisions for risks and charges a) commitments and guarantees given	-5,364
Tax effects	-3,135
Total effects	**-570,160**
Effects on equity attributable to non-controlling interests	1,383
Consolidated Equity as of 01/01/2018	**873,317**

There have been reclassifications among the valuation reserves and the profit reserves (FTA reserve) both due to application of the new logics of classification and measurement and by effect of the application of the new model of impairment.

IFRS 15 "Revenue from Contracts with the Clientele"

In May 2014 the IASB published IFS 15 "Revenue from Contracts with the Clientele" approved by the European Commission with (EU) Regulation 2016/1905. The principle - which replaces the principles and interpretations previously issued on the topic (IAS 18 "Revenue", IAS 11 "Work upon Order", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for Building Construction", IFRIC 18 "Sale of assets by the Clientele" and SIC 31 “Revenue - Trade Transactions Including Advertising Activities”) - shall mandatorily be applied as of 1 January 2018. The Accounting Principle introduces a unique model for the measurement of revenue applicable to all business contracts except for leasing contracts, insurance contracts and the financial instruments that involve recognition of revenue based on the sum one expects to receive for the goods and services provided.

The new standard introduces a method broken down into five “steps” to analyse the transactions and define the measurement of revenue equally in terms of timing and of their very sum:

- identification of the contract with the customer;
- identification of the performance obligations under contract;
- identification (if necessary, estimated) of the sum of the transaction;
- allocation of the commitments and the contractual obligations of the payment for the transaction;
- measurement of the revenue based on fulfilment of the contractual commitments and obligations.

Analyses were performed on the main revenue items that fall within the scope of application of the new principle analysing their components and the relative accounting processing based on that under IFRS 15. From the analyses carried out, material elements of discontinuity emerged in terms of the means of accounting currently applied.

Consequently, the effects of applying the new principle mainly regard the new requests for information to be given in the financial reports. Indeed, the principle must provide information on the nature, amount, timing and level of uncertainty of the revenue, as well as the cash flows coming from contracts with customers. These requirements were assimilated from the 5th updated of the circular of Banca d’Italia no. 262/05.

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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