Informazione Regolamentata n. 0105-143-2018	Data/Ora Ricezione 09 Agosto 2018 17:43:25	MTA

Societa'	:	CREDITO VALTELLINESE
Identificativo Informazione Regolamentata	:	107605
Nome utilizzatore	:	CRVALTELN02 - COLOMBO
Tipologia	:	1.1
Data/Ora Ricezione	:	09 Agosto 2018 17:43:25
Data/Ora Inizio Diffusione presunta	:	09 Agosto 2018 17:43:26
Oggetto	:	Consolidated results as at 30 June 2018

Testo del comunicato

Vedi allegato.

PRESS RELEASE

CONSOLIDATED RESULTS AS AT 30 JUNE 2018

BANK TURNAROUND COMPLETED IN H1

STRUCTURAL RISK PROFILE REDUCTION, DRIVEN BY A SIGNIFICANT CAPITAL BOLSTERING AND A DIVING NPE RATIO

SOLID CAPITAL POSITION:

PROFORMA[1] PHASE-IN CET1 RATIO AT 15.0%, WELL ABOVE THE 2018 SREP REQUIREMENT

PROFORMA[1] FULLY-LOADED CET 1 RATIO AT 11.2%

IMPROVING CREDIT QUALITY:

GROSS NPE RATIO AT 11.2%[2] (21.7% AT 31/12/2017), AT ITS LOWEST SINCE DECEMBER 2011

GROSS NPL STOCK -51% OVER THE END OF 2017 (-56% NET)

NPL COVERAGE AT 50.9% (53.8% INCLUDING WRITE-OFFS ON OUTSTANDING LOANS) POST NPL DISPOSAL

ROBUST LIQUIDITY POSITION:

LCR > 100% AND NSFR > 100%

3.1 B UNENCUMBERED ELIGIBLE LIQUID ASSETS

ADJUSTED[3] GROSS INCOME AT 48M EURO

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[1] Including already announced deals, whose equity impact will be recognized in H2 2018 (NPE disposals, bancassurance and consumer credit partnerships)

[2] Excluding 4.9 billion euro of government bonds from customer loans

[3] Excluding the main H1 2018 extraordinary impacts (SRF extraordinary contribution, Solidarity Fund costs, costs tied to NPE disposals and Badwill arising from the acquisition of Claris Factor)

PRESS RELEASE

KICK-OFF OF THE DEFINITIVE RELAUNCH OF THE BRANCH NETWORK

NET INTEREST INCOME AT +1.9% Q/Q (+3.0% NOT INCLUDING IFRS9 EFFECTS)

1.2 billion euro of new loans in H1 (+13% y/y), the highest levels in recent years

Announced partnership with Credit Agricole Assurances in the Life bancassurance business

Relaunch of the P&C and insurance brokerage businesses through the agreement with Ri-Fin

New consumer credit partnerships: with Dorotheum for pawn loans and with Pitagora for salary-backed loans

✓ **CAPITAL POSITION**

- PHASE-IN CET1 RATIO AT 14.0% (15.0% PROFORMA) AGAINST A 2018 SREP REQUIREMENT AT 7.075%
- FULLY-LOADED CET1 RATIO AT 10.2% (11.2% PROFORMA)
- TANGIBLE BOOK VALUE AT 1,448 MILLION EURO COMPARED TO 1,398 MILLION EURO AT 31 DECEMBER 2017

✓ **CREDIT AND ASSET QUALITY DYNAMICS**

- GROSS NPL STOCK DOWN FROM 4 BILLION AT THE END OF 2017 TO 2 BILLION NOT INCLUDING HELD FOR SALE ASSETS, GROSS NPE RATIO[4] AT 11.2% (5.9% NET NPE RATIO)
- NON-PERFORMING LOAN INFLOWS FROM PERFORMING LOAN BUCKET KEEP SLACKING OFF
- NEW LOANS AT APPROX. 1.2 BILLION EURO, WITH FURTHER GRADUAL IMPROVEMENT OF THE EXPECTED LOSS OF THE PERFORMING LOAN PORTFOLIO AT 30 BPS

[4] Excluding 4.9 billion euro of government bonds from customer loans

- **LIQUIDITY RATIOS**
  - 3-MONTH TOTAL COUNTERBALANCING CAPACITY OF APPROX. 5.4 BILLION EURO (OF WHICH ABOUT 3.1 BILLION UNENCUMBERED)[5]
  - LCR AND NSFR ABOVE 100%

Sondrio, 9 August 2018 – The Board of Directors of Credito Valtellinese approved the consolidated results as at 30 June 2018.

*"In H1 2018 the Bank turnaround can be declared completed – remarked **Mauro Selvetti**, Creval's CEO -, the actions that have been put in place, in line with the 2018-2020 Business Plan approved in November, allowed us to accomplish important goals in terms of risk profile reduction and operational efficiency gains, that in H2 will enable the Bank to focus entirely on restoring a sustainable profitability over the medium-long term. The significant capital bolstering upon completing the 700-million-euro capital increase in March opened the way to a strong acceleration of the de-risking process, with major NPL disposals that, combined with the increase in NPL coverage ratios, contributed to improving the Bank's overall credit quality. As to operational efficiency, we implemented cost-curbing actions by further streamlining the corporate structure and rationalizing the organizational setup, reaching the full efficiency of the branch network, which is now focused on increasing core revenues.*

To this respect – continued the CEO – in consistency with the goal to increase the overall profitability, in July we announced the reorganization and valorization of the bancassurance business by entering new long-term partnership agreements with Crédit Agricole Assurances (leading insurance company in Europe) within the life insurance business and with our insurance partner Ri-Fin within the P&C insurance business. I am very proud of the agreement reached with the Credit Agricole Group, which, in addition to being our new business partner, is also a Creval shareholder with a 5% stake, and this cannot but strengthen our future partnership. Finally, we announced the kick-off of two new important consumer credit partnerships, with Doretheum for pawn loans and with Pitagora for salary-backed loans".

<u>Update on activities set out in the 2018-2020 Business Plan</u>

Capital bolstering

The completion of the 700-million-euro capital increase in Q1 this year drove the Bank's capital ratios well above the minimum requirements and allowed the Bank to build up a solid capital position. This solidity has been further strengthened by the de-risking process, whose capital benefits will be booked in H2, and by the announced new partnerships (bancassurance and consumer credit), which are expected to be closed by the end of this year. Inclusive of the positive impact tied to the above transactions, the **proforma fully-loaded CET1 ratio at 30 June 2018 stood at 11.2%** (compared to 10.9% at 31 March 2018) **and at 15.0% on a phase-in basis** (14.4% at 31 March 2018).

[5] Data at 08/08/2018

It should be pointed out that additional capital benefits will come from the adoption of the advanced AIRB models, that are in line for the authorization by the Regulatory Authorities.

De-risking process and asset quality

In line with the de-risking and asset quality improvement targets under the Plan, three NPE disposals have been finalized in the first six months of the year, with a total gross book value (GBV) of about 2 billion euro. **Thanks to these deals the gross NPE ratio fell to 11.2%** at 30 June 2018 from 21.7% at year-end 2017, the lowest level since December 2011. The NPE disposal plan, targeting a 2018 gross NPE of 10.5% (with an additional drop to 9.6% expected by 2020), has thus been brought almost to completion. More specifically, the following deals were finalized:

- ✓ on 6 April, the sale of a secured non-performing loan portfolio (GIMLI 1 Project), mostly made up of unlikely-to-pay loans (UTP), with a GBV in excess of 245 million euro, at a price exceeding 43% of the GBV;

- ✓ on 8 May, the disposal of a secured non-performing loan portfolio (GIMLI 2 Project) comprised of UTP and bad loans, with a GBV in excess of 222 million euro, at a price approximating 41% of the GBV;

- ✓ on 13 June, the disposal of a bad loan portfolio, mostly secured (ARAGORN Project), through a securitization, pending the Italian government's state-guarantee (GACS) on the senior tranche, with a GBV of roughly 1.6 billion euro at a price close to 32% of the GBV.

The NPE reduction accomplished in H1 came with a strengthening of the coverage ratio, which at 30 June 2018, driven also by the impact from the first-time adoption of IFRS9, rose to 50.9% (53.8% including write-offs on outstanding loans) compared to 45.3% at 31 December 2017. **In particular, for bad loans the coverage ratio came in at 71.5%** (62.3% at 31 December 2017) and at **75.3%** including write-offs, among the highest across the Italian banking industry.

Operational efficiency and cost control

With respect to operational efficiency, the Bank continued with the actions aimed at cutting costs, at rationalizing the organizational setup and streamlining the corporate structure. In particular:

- ✓ the time-window to enter the voluntary redundancy scheme expired in June - under the agreement entered with the trade unions in April 2018. The scheme, designed to include at least 170 resources, has seen the approval of 219 applications (above Plan target) filed by employees who left the Group effective 1 July 2018. **The headcount reduction will bring about roughly 9 million euro of total personnel cost savings in 2018 and about 18 million euro annually starting in 2019**. The agreement is set to generate additional cost savings tied to specific measures to redefine personnel payroll and benefits, **that once fully operational should generate approx. 13 million euro of savings;**

- ✓ the merger of the subsidiary Creval Sistemi e Servizi Soc. Cons.p.A. (CSS) into Credito Valtellinese was approved in July. This transaction is a logical follow-on to the merger of Credito Siciliano into the Parent company finalized on 25 June, as well as to the previous mergers of the Group's other territorial banks, in consistency with the creation of the "single bank";

- ✓ 50 more branches were closed in May, and 4 ordinary branches were turned into "*Bancaperta*" branches, in line with the branch network optimization plan, bringing the total number of bank branches to 363, on track with the Plan's branch network target of 350 branches.

Business model evolution

Restoring a structural profitability over the medium-long term through actions targeting specific business areas represents one of the pillars of the 2018-2020 Plan, and to this end, the bank had started a process to reorganize and valorize its bancassurance business activities. This process has been completed with the reorganization of the current insurance business operational model announced on 26 July, through:

(i) **a new long-term exclusive partnership with Crédit Agricole Assurances SA ("CAA") in the Life business**, giving CAA access for 15 years to the Creval network for the distribution of all savings and investment insurance products, as well as some protection insurance products;

(ii) **the remodulation of existing agreements with the current insurance partner Ri-Fin and a new partnership agreement in the P&C and insurance brokerage businesses**, on an exclusive basis and for 15 years.

The entire reorganization of the insurance business activities generated a positive effect of 35bps on the fully-loaded CET1 ratio and looking-forward it will increase the fee income stream coming from this specific business area.

Talking about revenues, as separately announced today, Creval started two new partnerships in the consumer credit business:

- ✓ **with Dorotheum and Custodia Valore for pawn loans**. The deal will allow us to partner with one of the primary European leaders in the pawnbroking business and falls within the initiatives set out by the Plan aimed at valorizing pre-determined non-core businesses, at increasing the bank's total profitability and further strengthening its capital ratios. Indeed, the partnership is set to generate an estimated net capital gain of 44.5 million euro and an estimated positive effect on CET1 capital ratio of about 5bps;
- ✓ **with Pitagora (Gruppo Cassa di Risparmio di Asti) for salary-backed loans**. The deal will allow Creval to broaden its retail customer offering even further, and – in line with the Plan – is set to generate an increase in total profitability, in particular by expanding Creval's market penetration in consumer credit, which in turn will enhance our ability to generate fees.

Key balance sheet items

At 30 June 2018, **loans and advances to customers** stood at 21.4 billion euro (of which 4.9 billion euro represented by government bonds), compared to 16.7 billion euro at 31 December 2017. Excluding government bonds and impairments under the FTA of IFRS9, the aggregate grew by 2.8%, mainly driven by the pick-up over H1 of new loans, which added up to 1.2 billion euro, up by 13% y/y (of which 712 million euro in Q2, up by more than 40% over the previous quarter), thus confirming the ongoing recovery of the commercial activity. Even the loan quality has been reporting a significant improvement: EL (expected loss) of 34bps for the "individuals" segment and 29bps for the "SME and corporate" segment.

At the end of the period, net non-performing exposures not reclassified as assets held for sale (NPE) added up to 968 million euro, down by 1.2 billion euro (-56%) from 2.2 billion at the end of December 2017. The drop was driven by the disposal of non-performing loans over the first half of the year and by the write-downs upon the FTA of IFRS9.

Specifically, net bad loans came in at 228 million euro, down by 65% from 658 million at year-end 2017; net unlikely-to-pay loans totaled 642 million euro, down by 55% from 1,437 million euro at year-end 2017; net past-due loans stood at 97 million euro, down by 6% from 103 million euro at year-end 2017.

The NPL coverage ratio (not including those reclassified under assets held for sale) came in at 50.9%, up from 45.3% at 31 December 2017 notwithstanding the disposals. Including write-offs, the total coverage ratio rose to 53.8%.

Specifically, the coverage of the single non-performing loan classes is the following:

- bad loans at 71.5% (62.3% at 31 December 2017), 75.3% including write-offs;
- unlikely-to-pay loans at 39.1% (33.6% at 31 December 2017);
- past-due loans at 15.0% (8% at 31 December 2017).

Assets held for sale totaled 89 million euro and were mainly represented by non-performing exposures under disposal ("*Gimli 2 Project*").

The coverage ratio of performing customer loans stood at 0.75%, excluding government bonds.

Direct funding added up to 20.4 billion euro, up by 4.0% compared to 31 December 2017 and by 3.1% compared to 31 March 2018. More specifically, the checking accounts and deposits component posted an increase, as well as funding with central counterparties (Cassa Compensazione e Garanzia); both the retail and institutional bond funding components have been declining in line with the policy to reduce the more expensive funding sources.

Indirect funding came in at 10.4 billion euro, compared to 11.3 billion at the end of December 2017. This component has been weighed down by the negative market performance, especially in Q2, affecting both assets under management and under administration.

Financial assets represented by securities stood at 8.2 billion euro. Of these, 6.7 billion euro are represented by government bonds, mainly classified in the portfolio of financial assets measured at amortized cost with a duration of about 2.4 years considering interest rate risk hedges.

The liquidity position is robust. At 8 August 2018, the counterbalancing capacity at 3 months was 5.4 billion euro (of which 3.1 billion unencumbered), up from 4.3 billion euro at 31 March

2018 thanks to the securitization of SME secured and unsecured performing loans completed on 30 July totaling 1.5 billion euro. The liquidity ratios – LCR and NSFR – were well above the minimum regulatory requirements.

Shareholders' equity and capital ratios

The Group's equity at 30 June 2018 stood at 1,493 million euro against 1,442 million euro at 31 December 2017. The Group's tangible book value at 30 June 2018 was 1,448 million euro, compared to 1,398 million euro at 31 December 2017.

Under the phase-in regime, the Common Equity Tier1 (CET1) was 1,939 million euro, against risk-weighted assets (RWAs), calculated along the standardized approach, of 13,892 million euro. Total own funds amounted to 2,158 million euro.

On a phase-in basis, capital ratios came in as follows:

- CET1 ratio at 14.0%
- Tier 1 ratio at 14.0%
- Total Capital ratio at 15.5%.

The above requirements exceed the SREP minimum requirements for 2018, namely:

- 7.075% for the CET1 ratio,
- 8.813% for the Tier1 ratio,
- 11.125% for the Total Capital ratio.

The fully-loaded CET1 ratio at 30 June 2018 was 10.2%.

Including the benefits tied to the deals that have already been finalized and whose equity impact is going to be recognized in Q2 2018 (NPL disposals, bancassurance reorganization and consumer credit partnerships), the proforma phase-in CET 1 ratio rises to 15.0% (11.2% on a fully-loaded basis).

Operating results

In H1 2018, **net interest income** stood at 178.9 million euro, compared to 198.8 million euro in H1 2017. The data are not readily comparable due to the adoption of IFRS9 and the impact from the disposal of bad and UTP loan pools.

In Q2 2018, net interest income added up to 90.3 million euro, up by 1.9% over the prior quarter (+3.0% excluding IFRS9 impacts), despite the reduced interest income stream from sold UTPs (amounting to roughly 6 million euro) which drove the total NPL interest income ratio to 17% from 21% in the prior quarter. The securities portfolio contributed with 12.3 million euro, up compared to 5.5 million euro in the prior quarter due to the recomposition of the portfolio leading to an increase in Government Bonds.

Net fees and commissions came in at 139.4 million euro, reporting a dip y/y (-2.0%) mainly due to the decline in commission income from checking accounts and collection and payment services, partly offset by the increase in commission income from management, brokerage and advisory services (+3.7% y/y).

Net income from **trading, hedging, disposal and repurchase activities** was 16.5 million euro.

Operating income came in at 341 million euro, compared to 379 million euro in the period under comparison.

Operating costs stood at 307 million euro, against 256 million euro in the same period of 2017.

Personnel expenses amounted to 193.4 million euro and include 63.5 million euro (57.5 million euro in Q1 and 6.0 million euro in Q2 including the actuarial effect) of non-recurring charges tied to the voluntary redundancy scheme under the agreement with trade unions entered on 16 April. H1 2017 had benefitted from a 7.5-million-euro positive component ("NASPI" contribution - Nuova Assicurazione Sociale per l'Impiego). Net of these components, personnel expenses went down by 9.5% y/y, when including savings tied to last year's voluntary exits through the sector Solidarity Fund. **Other administrative expenses** added up to 101 million euro and include total non-recurring charges of 9.5 million euro recognized in Q2, of which 3.4 million euro tied to the extraordinary contribution to the Single Resolution Fund and 6.1 million euro to the securitization of non-performing loans (ARAGORN Project). Net of these non-recurring components, other administrative expenses declined by 11.0%.

Net operating profit stood at 34 million euro.

Loan impairments/reversals (determined in compliance with IFRS9 and making a positive contribution of 22.2 million euro when accounting for reversals on non-performing loans not included in disposals) together with the **loss on sale/repurchase of financial assets measured at amortized cost** (-95.2 million euro, tied to the NPL disposals carried out over the first half of the year) generated a negative contribution of 73 million euro, of which 57 million euro tied to ordinary loan write-downs reflecting an annualized cost of credit of 69bps (excluding government bonds from customer loans).

Badwill arising from the purchase price allocation for the acquisition of Claris Factor, finalized on 29 June, came in at 15.4 million euro.

After accounting for provisions for risks and charges of 4.6 million euro, the **loss on continuing operations before tax** amounted to 28.2 million euro. Excluding non-recurring impacts in H1 (the extraordinary SRF contribution, the Solidarity Fund costs, costs tied to the NPE disposals and the Badwill arising from the acquisition of Claris Factor), gross income came in at 48.1 million euro.

Income taxes for the period made a positive contribution of 30.8 million euro and include 12.6 million euro from the recognition of off-balance sheet DTAs, as a result of the probability test carried out upon approving the results as at 30 June 2018. After minority interests, **net income for the period** amounted to 0.8 million euro.

2018 mid-year outlook

The global economic outlook remains favorable to a continuation of the expansionary phase, despite the Q1 slowdown. Economic growth in the Eurozone is expected to continue, although risks are tilted to the downside, in particular due to global protectionism that could hamper export growth. The outlook for the Italian economy remains positive, supported by the expectation of a labor market improvement and by an increase in household spending, which however is projected to slow down slightly. The manufacturing activity is still in a soft patch, weighed down by the drop reported in orders and exports, more deeply felt outside of the European Union.

As to the Italian banking industry, loans to SME and households started to pick up again, albeit at a modest pace, favored by low interest rates and by the real estate market outlook. The loan book quality keeps on improving, favored by the economic expansion underway and by the balance sheet clean-up banks have been engaging in.

Against this backdrop, in the second half of the year Creval will continue to implement all the necessary activities to achieve the objectives set out for 2018 under the Plan, focusing in particular on the expansion of its commercial activities and on restoring its core business profitability.

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Please find below the key financial highlights and alternative performance indicators, together with the reclassified consolidated Statement of Financial Position and Income statement.

Audits by the Audit firm are still underway.

Statement of the financial reporting officer

The financial reporting officer, Mrs. Simona Orietti, in compliance with paragraph two of art. 154 *bis* of the "Consolidated act for financial intermediation", hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

Simona Orietti

Contacts

Creval

Fabio Pelati
Investor Relations
Telefono + 39 02 80637127
Email: investorrelations@creval.it

Raffaella Premoli
Media Relations
Telefono +39 02 80637403
Email: mediarelations@creval.it

Comin & Partners
Lelio Alfonso
Telefono +39 334 605 4090
Email: lelio.alfonso@cominandpartners.com

Creval

PRESS RELEASE

CONSOLIDATED FINANCIAL HIGHLIGHTS AND ALTERNATIVE PERFORMANCE INDICATORS

STATEMENT OF FINANCIAL POSITION DATA	30/06/2018	31/12/2017	Change
(in thousands of EUR)			
Loans and receivables with customers	21,434,668	16,680,944	28.50%
Financial assets and liabilities measured at fair value	2,134,033	4,300,828	-50.38%
Non-current assets held for sale and disposal groups	89,471	3,955	N.a.
Total assets	26,033,597	24,956,824	4.31%
Direct funding from customers	20,414,126	19,631,283	3.99%
Indirect funding from customers	10,437,811	11,273,213	-7.41%
of which:			
- Managed funds	7,331,272	7,801,592	-6.03%
Total funding	30,851,937	30,904,496	-0.17%
Equity	1,493,059	1,442,094	3.53%

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SOLVENCY RATIOS	30/06/2018	31/12/2017
Common Equity Tier 1 capital / Risk-weighted assets (CET1 capital ratio)	14.0%	10.6%
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	14.0%	10.6%
Total own funds / Risk-weighted assets (Total capital ratio)	15.5%	12.5%

Figures calculated provisionally pending the submission to the Supervisory Authority.

FINANCIAL STATEMENT RATIOS	30/06/2018	31/12/2017
Indirect funding from customers / Total funding	33.8%	36.5%
Managed funds / Indirect funding from customers	70.2%	69.2%
Direct funding from customers / Total liabilities	78.4%	78.7%
Loans and receivables with customers / Direct funding from customers	105.0%	85.0%
Loans and receivables with customers / Total assets	82.3%	66.8%

CREDIT RISK	30/06/2018	31/12/2017	Change
Net bad loans (in thousands of EUR)	228,456	657,512	-65.25%
Other net doubtful loans (in thousands of EUR)	739,678	1,540,116	-51.97%
Net non-performing loans (in thousands of EUR)	968,134	2,197,628	-55.95%
Net bad loans / Loans and receivables with customers	1.1%	3.9%	
Other net doubtful loans / Loans and receivables with customers	3.5%	9.2%	
Net non-performing loans / Loans and receivables with customers	4.5%	13.2%	
Coverage ratio of bad loans	71.5%	62.3%	
Coverage ratio of other doubtful loans	36.7%	32.3%	
Coverage ratio of net non-performing loans	50.9%	45.3%	

Loans and receivables with customers classified under non-current assets held for sale and disposal groups are not included.

ORGANISATIONAL DATA	30/06/2018	31/12/2017	Change
Number of employees	3,902	3,819	2.17%
Number of branches	363	412	-11.89%

OTHER FINANCIAL INFORMATION	1st half of 2018	1st half of 2017
Cost/Income ratio (*)	66.5%	66.9%

(*) First half 2018 figure calculated net of non-operating expenses related to the "Solidarity Fund 2018" for EUR 66,497 thousand, the ordinary and extraordinary contributions for SRF for EUR 12,611 thousand and the DTA fee for EUR 1,078 thousand and; first half 2017 figure calculated net of non-operating expenses related to the ordinary contributions for SRF (7,922 thousands of EUR, the DTA fee (1,077 thousands of EUR) and of non-operating profit related to the implementation of the "Solidarity Fund 2016" (6,816 thousands of EUR).

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	30/06/2018	31/12/2017	Change
Cash and cash equivalents	150,237	197,829	-24.06%
Financial assets at fair value through profit or loss	243,265	20,681	N.a.
Financial assets at fair value through other comprehensive income	2,026,565	4,419,352	-54.14%
Loans and receivables with banks	596,586	2,033,413	-70.66%
Loans and receivables with customers	21,434,668	16,680,944	28.50%
Hedging derivatives	-	199	-100.00%
Equity investments	25,167	24,371	3.27%
Property, equipment and investment property and intangible assets (1)	487,760	486,524	0.25%
Non-current assets held for sale and disposal groups	89,471	3,955	N.a.
Other assets (2)	979,878	1,089,556	-10.07%
Total assets	**26,033,597**	**24,956,824**	4.31%

(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	30/06/2018	31/12/2017	Change
Due to banks	3,124,573	3,143,189	-0.59%
Direct funding from customers (1)	20,414,126	19,631,283	3.99%
Financial liabilities held for trading	198	713	-72.23%
Hedging derivatives	135,599	138,691	-2.23%
Other liabilities	622,929	421,399	47.82%
Provisions for specific purpose (2)	242,602	174,103	39.34%
Equity attributable to non-controlling interests	511	5,352	-90.45%
Equity (3)	1,493,059	1,442,094	3.53%
Total liabilities and equity	**26,033,597**	**24,956,824**	4.31%

(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 (Loss) for the period".

PRESS RELEASE

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in thousands of EUR)

ITEMS	1st half of 2018	1st half of 2017	Change
Net interest income	**178,879**	**198,772**	**-10.01%**
Net fee and commission income	139,422	142,316	-2.03%
Dividends and similar income	1,867	2,876	-35.08%
Profit of equity-accounted investments (1)	1,299	158	N.a.
Net trading, hedging income (expense) and profit (loss) on sales/repurchases (2)	16,473	24,221	-31.99%
Other operating net income (3)	3,039	10,700	-71.60%
Operating income	**340,979**	**379,043**	**-10.04%**
Personnel expenses	(193,432)	(134,315)	44.01%
Other administrative expenses (4)	(100,957)	(107,711)	-6.27%
Depreciations/amortisations and net impairment losses on property, equipment and investment property and intangible assets (5)	(12,567)	(13,854)	-9.29%
Operating costs	**(306,956)**	**(255,880)**	**19.96%**
Net operating profit	**34,023**	**123,163**	**-72.38%**
Impairment or reversal of impairment and modification gains (losses) (6)	22,202	(328,562)	-106.76%
Losses on derecognition of financial assets valued at the amortised cost (7)	(95,220)	(13,411)	N.a.
Net accruals to provisions for risks and charges	(4,575)	(40,493)	-88.70%
Net gains (losses) on sales of investments and valuation differences on property and equipment at fair value (8)	(19)	68,780	-100.03%
Badwill (9)	15,357	-	N.a.
Pre-tax loss from continuing operations	**(28,232)**	**(190,523)**	**-85.18%**
Income taxes	30,777	(2,477)	N.a.
Post-tax profit (loss) from continuing operations	**2,545**	**(193,000)**	**-101.32%**
Profit for the period attributable to non-controlling interests	(1,721)	(1,828)	-5.85%
Profit (loss) for the period	**824**	**(194,828)**	**-100.42%**

(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 21,686 thousand in First half 2018 and EUR 25,718 thousand in First half 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 500 thousand in First half 2018 and EUR 688 thousand in First half 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) Include item "100. Net gains (losses) on sales or repurchase of: a) financial assets valued at the amortised cost "
(8) 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"

(9) Include badwill accounted in item 230 “Other operating expenses/income”

NOTES

First time application of the IFRS 9 – 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 impairment and hedge accounting.

The definitive impact from the first-time adoption of the new standard has been quantified upon preparing the Half-yearly Financial Report as at 30TH June 2018, subject to a limited review by the auditing firm KPMG S.p.A. The effects deriving from the first time adoption, recorded in equity as of 1° January 2018, equal to -584,9 million euros.

The table below shows the reconciliation between between the Consolidated Equity as of 31/12/2017 and the Consolidated Equity of aperture as of 1/1/2018, after the transition to IFRS 9, which shows the effects of the first time adoption.

(in thousands of EUR)

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	-592,505
Provisions for risks and charges a) commitments and guarantees given	-5,413
Tax effects	-3,122
Total effects	**-584,900**
Effects on equity attributable to non-controlling interests	1,411
Consolidated Equity as of 1/1/2018	**858,605**

The group avails of the exemption from the obligation, on uniform bases, to re-explain the comparative 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.

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