PRESS RELEASE

Volksbank: Half-yearly financial report approved with a net profit of Euro 11.1 million

Bolzano, 7 August 2017

Net profit of Euro 11.1 million in the first half of 2017, compared to a Euro 27.4 million loss in the first half of 2016. Net profit of Euro 16.1 million if contributions and other charges relating to support of the banking system are excluded ([1]).

The profit for the first half of 2017 confirms the goals set out in the 2017-2021 business plan, based on adding customers, increasing volumes and profit margins, and improving operational efficiency.

Operating profit up: net interest and other banking income +10.3% and Euro +12 million compared to the first half of 2016, with significant growth in loans (+2.2% and Euro +148.3 million) and assets under management (+8.1% and Euro +156.6 million). Net interest income increased by 11.9% to Euro 76.9 million, and commission income increased by 9.2% to Euro 43.3 million.

Improvement in credit quality: in the first 6 months of 2017, there was a reduction of Euro 19.1 million in gross impaired loans (-1.7%). The aggregate amount stood at 14.9% of gross loans.

Capitalisation levels higher than regulatory requirements: CET 1 ratio of 11.5%, considering the profit for the period.

Banca Popolare • Volksbank confirms its position as a **key supporter for growth of the economy in Alto Adige and Northeast Italy:** in the first half of 2017, over Euro 180 million in new loans to families and non-financial companies, not including home loans (+23.8% compared to the second half of 2016), about 165 companies returned to performing status in the first half of 2017.

"The first half ended with an excellent result in line with the goals in the business plan. This was one of the best half-year performances in our history. Banca Popolare • Volksbank confirms its position as the regional bank in Alto Adige and Northeast Italy, the driver of growth in the territory thanks to its ability to support the economy by increasing loans to families and manufacturing companies, maintaining adequate levels of core income. The profit achieved confirms that the merger with Banca Popolare di Marostica was a success from both a cultural and financial viewpoint" said the Chairman **Otmar Michaeler**.

The General Manager, **Johannes Schneebacher**, stated that *"the half-year figures confirm the strong points of the business model of Banca Popolare • Volksbank: generation of revenues from the growth of loans and services provided, control of the cost of risk, and improvement in operating efficiency in order to optimise the cost/income ratio. The profit for the period and the balance sheet aggregates increased in accordance with forecasts, in a situation of capital adequacy and financial equilibrium."*

([1]) Contributions to the resolution fund and charges for impairment on the investment in Atlante and the voluntary Inter-Bank Deposit Protection Fund scheme.

- **Growth of net profit:**
  - Euro 11.1 million in the first half of 2017 compared to Euro -27.4 million in the first half of 2016;
  - Euro 16.1 million in the first half of 2017 compared to Euro -24.8 million in the first half of 2016, excluding taxes and other charges to support the banking system.
- **Operating profit up:**
  - Net interest and other banking income +10.3% compared to the first half of 2016;
  - Net income from financial activities of Euro 102.8 million compared to Euro 30.7 million in the first half of 2016.
- **Constant attention paid to cost control:**
  - Administrative expenses, net of charges to support the banking system, down by 3.2% to Euro 88.2 million compared to Euro 91.1 million in the first half of 2016.
- **Significant recovery in indirect funding in the half-year period:**
  - Administered funding up by 3.4% to Euro 1,576.6 million (Euro +51.8 million);
  - Assets under management up by 8.1% to Euro 2,099.6 million (Euro +156.6 million).
- **Improved income before tax from continuing operations, with adjustments to loans that reflect the improved credit quality:**
  - Income before tax from continuing operations of Euro 15.2 million compared to Euro -56.1 million in the first half of 2016;
  - Impairment losses on loans at Euro 21.2 million compared to Euro 85.5 million in the first half of 2016.
- **Improvement in credit quality trends:**
  - Flow of new gross impaired loans of Euro 47.1 million in the first half of 2017, back to normal levels, and significantly down on 2016;
  - Gross impaired loans were down by Euro 19.1 million, equal to -1.7%, without extraordinary expenses for shareholders.
- **Constant improvement in asset quality, reduction in impaired loans**
  - Degree of hedging of doubtful loans at 52.9% (50.8% at the end of 2016); degree of hedging of impaired loans at 42.7% (40.2% at the end of 2016);
  - Texas ratio down to 83.1% from 90.3% at the end of 2016;
  - Net doubtful loans stood at Euro 332.6 million, down by 2.8%, and equal to 4.8% of net loans on the balance sheet, compared to 5.1% at the end of 2016;
  - Unlikely to pay loans stood at Euro 287.8 million, down by 8.4% compared to the 314.1 million at the end of 2016, and equal to 4.2% of the total net loans recognised, down compared to 4.7% of the end of 2016.
- **Adequate capitalisation levels, higher than regulatory requirements:**
  - CET 1 Ratio of 11.5%
  - Tier 1 Ratio of 11.6%
  - Total Capital Ratio of 11.6%
- **More than adequate liquidity and funding capacity**
  - More than adequate liquidity: LCR higher than 153%, much higher than the threshold provided for as the standard target; NSFR higher than 110%, calculated in accordance with the most recent Quantitative Impact Study rules;

- The branch network remains a stable, reliable source of funding: 90.8% of direct funding comes from retail customers;
- ECB TLTRO funding to optimise the cost of funding and support the investments of business customers of Euro 1 billion (against a maximum amount that could be requested of Euro 1,406 million);

- **Support to the real economy**
  - over Euro 200 million in new medium-long term loans in the first half of 2017, up 4.7% compared to the end of 2016;
  - improved support to the territory, with over Euro 180 million in net additional financing, given to families and non-financial small and medium-sized enterprises, not including home loans, up by 23.8% compared to the second half of 2016;
  - over 165 companies returned to performing status from impaired loan positions recorded in the first half of 2017.

Banca Popolare · Volksbank, with registered office in Bolzano, is a regional bank in Alto Adige (original market) and in the Provinces of Trento, Belluno, Treviso, Pordenone, Vicenza, Padua and Venice. The Bank was founded in 1886 and has over 59,000 shareholders, 177 branches and about 1,300 employees.

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RESULTS AS AT 30 JUNE 2017

Today, the Board of Directors of Banca Popolare • Volksbank approved the half-yearly financial report as at 30 June 2017.

The profit made in the first half of 2017 confirms the approach taken by the Banca Popolare • Volksbank business model, thanks to the generation of revenue based on the growth of loan and commission volumes, the continued effort to make operations more efficient and striving for continued improvement in the cost/income ratio.

The increase in volumes and the main income components, in line with the goals of the business plan, show solid earnings capacity, based on development of the range of products and services available to customers, robust growth in operating activities and a further drop in the number of impaired loans.

Loans to customers are up by 2.2% to Euro 6.9 billion compared to Euro 6.7 billion at the end of 2016. There was further progress on asset quality, with improvement of the main credit quality indicators, firstly the ratio between net doubtful loans and net loans and also between gross impaired loans and gross loans. Direct funding from customers is down 2.4% and stood at Euro 6.9 billion, with a reduction in absolute value of Euro 169 million compared to the end of the previous year. As at 30 June, the number of customers stood at over 266 thousand compared to 263 thousand at the end of 2016. Indirect funding was up by 6.0% to Euro 3.7 billion compared to Euro 3.5 billion at the end of 2016. Assets under management were up by 8.1% to Euro 2.1 billion compared to Euro 1.9 billion at the end of 2016. Capital adequacy is more than adequate, with a CET1 ratio of 11.5%.

Main Income Statement Figures

Continued improvement in the core income components is confirmed. Net interest income stood at Euro 76.9 million, up 11.9% compared to the first half of 2016 (Euro 68.7 million). Net fee and commission income amounted to Euro 43.3 million, up by +9.2% compared to the first half of 2016 (Euro 39.7 million).

The contribution of the financial portfolio remains positive. The net financial result was a positive Euro 6.1 million, of which Euro 4.6 million relating to profits from the disposal of financial assets available for sale. Dividends and similar income stood at Euro 2.1 million, up compared to Euro 741 thousand in the first half of 2016.

Net interest and other banking income amounted to Euro 128.4 million, up 10.3% compared to Euro 116.4 million in the first half of 2016.

Net adjustments to financial assets stood at Euro 25.7 million, down 70.1% compared to the first half of 2016. This change mainly relates to the credit segment, with Euro 21.2 million (-75.2% compared to Euro 85.5 million in the first half of 2016).

The hedging of doubtful loans, net of default interest, stood at 52.9% (50.8% at the end of 2016), the hedging of unlikely to pay loans at 24.9% (23.3% at the end of 2016), past-due loans at 8.6% (9.0% at the end of 2016) and performing loans at 0.8% (the same as at the end of 2016). The total adjustment provisions amounted to 7.0% of gross loans (6.9% at the end of 2016).

Net adjustments to other financial assets, for Euro 4.5 million, include Euro 3.1 million relating to the impairment of Atlante as decided by the former Banca Popolare di Vicenza and Veneto Banca, and Euro 0.6 million for impairment recorded on the amount held in the voluntary Inter-Bank Deposit Protection Fund scheme due to the negative result recorded by Cassa di Risparmio di Cesena at the end of 2016.

The annualised cost of credit was 57 bps, down from the 123 bps of 2016.

Net income from financial activities, equal to Euro 102.8 million, was up compared to the Euro 30.7 million of the first half of 2016, due to improvement in the margins and no further impairment which had penalised the first six months of 2016.

Operating costs, net of operating income and charges, including charges to support the banking system, were down by 1.0% to Euro 98.0 million. Personnel expenses were down 4.7% to Euro 51.8 million. Other administrative expenses stood at Euro 41.7 million, up by 7.6%. Net adjustments to property and equipment and intangible assets were down by 7.3%, standing at Euro 4.1 million.

Expense recorded in the income statement relating to the funding mechanism of the Deposit Guarantee System amounted to Euro 2.4 million. The charge for the mandatory contribution to the National Resolution Fund amounted to Euro 2.9 million.

Income before tax from continuing operations stood at Euro 15.2 million compared to Euro -56.1 million in the first half of 2016. Income taxes amounted to Euro 4.0 million. Net profit amounted to Euro 11.1 million compared to Euro -27.4 million in the first half of 2016.

Main balance sheet aggregates

Direct funding from customers, including the wholesale component (due to customers, debt securities issued and financial liabilities designated at fair value) stood at Euro 6,941.6 million, down by 2.4% compared to the end of 2016 (Euro 7,110.5 million). Deposits and certificates of deposit were up 1.0%, while debt securities issued were down (-10.3%), as were repurchase agreement deposits (-78.0%). The overall reduction was mainly due to customers replacing direct funding instruments with indirect funding instruments and assets under management.

Direct funding from customers, without the wholesale component, stood at Euro 6,305.4 million, down by 2.8%.

This confirms the regard that customers have for the bank, both with respect to bonds and to current accounts and deposits: the wholesale component only represents 9.2% of total funding.

Indirect funding from customers, measured at market prices, amounted to Euro 3,676.2 million, up by 6.0% compared to the beginning of the year. Securities deposited and under administration amounted to Euro 1,576.6 million (+3.4%), investment funds amounted to Euro 1,510.0 million (+7.9%), while the insurance component amounted to Euro 589.6 million (+8.6%).

Loans to customers, net of impairment, amounted to Euro 6,875.5 million, up 2.2% from the beginning of the year. The ratio of loans to deposits, net of the wholesale component, amounted to 109.0% (103.7% at the end of 2016).

The amount of net impaired loans was Euro 630.9 million, -5.7% from the beginning of the year, with a net doubtful loan component of Euro 332.6 million (-2.8%); net unlikely to pay loans amounted to Euro 287.8 million (-8.4%) and net past due exposures amounted to Euro 10.5 million

(-18.0%). These aggregates represented 4.8%, 4.2% and 0.2% respectively of the total net loans to customers (the comparison with the gross amounts equals 9.6%, 5.2% and 0.2% respectively). The degree of hedging of impaired loans was 42.7%.

The net inter-bank position was a negative Euro 1,128.2 million (compared to Euro 1,043.1 million at the end of 2016) due to the imbalance between the amount due from banks of Euro 122.7 million and payables of the same nature of Euro 1,250.9 million.

The positive liquidity profile of the Bank is confirmed, with total ECB-eligible securities of Euro 1.1 billion, after the haircut.

Financial assets, including investments, amounted to a total of Euro 1,921.2 million, up 0.7% compared to Euro 1,908.0 million at the end of 2016.

Capital ratios

The regulatory aggregates, calculated on the basis of the Basel III standard approach, show that the values remain well above the minimum prudential requirements:

- Common Equity Tier 1 Ratio and CET 1 equal to an estimated 11.5% and Euro 709.9 million respectively;
- Total capital ratio and own funds amounted to an estimated 11.6% and Euro 713.3 million respectively.

There were 1,238 employees (FTE) and 177 branches at the end of the year.

In order to provide extra information, the Balance Sheet and Income Statement as at 30 June 2017, comparing them with the same period of the previous year, and a summary of the main indicators.

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The Manager responsible for the preparation of corporate accounting documents, Alberto Caltroni, declares, in accordance with article 154-*bis*, paragraph 2, of Legislative Decree no. 58/1998 (Consolidated Law on Finance) that the accounting disclosure contained in this press release corresponds to the figures in the accounting documents and records.

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This press release is available on the websites www.volksbank.it and www.bancapopolare.it.

Balance Sheet as at 30 June 2017

Assets		30.06.2017	31.12.2016
(in euro)			
10.	Cash and cash equivalents	59,918,889	59,170,988
20.	Financial assets held for trading	11,808,665	14,394,347
40.	Financial assets available for sale	1,231,972,714	1,625,719,283
50.	Investments held to maturity	671,262,032	260,923,680
60.	Due from banks	122,707,536	41,916,636
70.	Loans to customers	6,875,537,396	6,727,222,564
100.	Investments	6,138,204	6,913,336
110.	Property and equipment	140,204,367	142,475,976
120.	Intangible assets	119,778,921	120,370,270
	of which:		
	- goodwill	*99,601,776*	*99,601,776*
130.	Tax assets	179,529,433	183,995,804
	a) current	*60,480,537*	*59,943,447*
	b) prepaid	*119,048,896*	*124,052,357*
	- pursuant to Italian Law no. 214/2011	*76,363,986*	*79,438,462*
150.	Other assets	110,793,545	132,982,832
	Total assets	**9,529,651,702**	**9,316,085,716**

Liabilities and shareholders' equity		30.06.2017	31.12.2016
(in euro)			
10.	Due to banks	1,250,870,865	1,085,006,401
20.	Due to customers	5,946,891,609	6,001,785,846
30.	Debt securities issued	984,969,748	1,099,040,171
40.	Financial liabilities held for trading	4,404,792	2,269,549
50.	Financial liabilities carried at fair value	9,703,305	9,720,698
80.	Tax liabilities	34,059,099	31,850,865
	a) current	*3,459,230*	*1,844,721*
	b) deferred	*30,599,869*	*30,006,144*
100.	Other liabilities	383,056,270	187,328,133
110.	Employee termination indemnities	19,670,978	20,523,562
120.	Provisions for risks and charges:	16,989,118	17,139,791
	a) pensions and similar commitments	-	-
	b) other provisions	*16,989,118*	*17,139,791*
130.	Valuation reserves	939,831	(5,543,206)
160.	Reserves	284,365,657	276,644,070
170.	Share premium reserve	383,158,533	383,158,533
180.	Share capital	199,439,716	199,439,716
200.	Net income (loss) for the year	11,132,180	7,721,587
	Total liabilities and shareholders' equity	**9,529,651,702**	**9,316,085,716**

INCOME STATEMENT

INCOME STATEMENT	30.06.2017	30.06.2016
(in euro)		
10. Interest and similar income	91,265,956	89,703,977
20. Interest and similar expense	(14,379,367)	(20,984,185)
30. Net interest income	**76,886,589**	**68,719,792**
40. Fee and commission income	48,111,107	43,964,261
50. Fee and commission expense	(4,793,112)	(4,279,677)
60. Net fee and commission income	**43,317,995**	**39,684,584**
70. Dividends and similar income	2,075,206	740,673
80. Net income from trading activities	1,435,083	572,267
100. Profits (losses) on disposal or repurchase of:	4,753,138	6,691,511
a) receivables	-	-
b) financial assets available for sale	*4,559,204*	*6,535,784*
c) financial assets held to maturity	*978*	*(6)*
d) financial liabilities	*192,956*	*155,733*
110. Profits (losses) on financial assets and liabilities designated at fair value through profit or loss	(39,173)	16,614
120. Net interest and other banking income	**128,428,838**	**116,425,441**
130. Net losses/recoveries on impairment of:	(25,678,161)	(85,759,503)
a) receivables	*(21,212,567)*	*(85,482,632)*
b) financial assets available for sale	*(4,465,594)*	-
c) financial assets held to maturity	-	-
d) other financial transactions	-	*(276,871)*
140. Net income from financial activities	**102,750,677**	**30,665,938**
150. Administrative expenses:	(93,515,247)	(93,142,203)
a) personnel costs	*(51,767,742)*	*(54,346,215)*
b) other administrative expenses	*(41,747,505)*	*(38,795,988)*
160. Net provisions for risks and charges	(376,955)	(1,376,425)
170. Net adjustments to/recoveries on property and equipment	(3,468,801)	(3,522,574)
180. Net adjustments to/recoveries on intangible assets	(656.699)	(930,117)
190. Other operating income/expenses	11,017,795	12,337,565
200. Operating costs	**(86,999,907)**	**(86,633,754)**
210. Profits (losses) on investments in associates and companies subject to joint control	(775,132)	(123,477)
240. Profits (losses) on disposal of investments	194,368	34,098
250. Income (loss) before tax from continuing operations	**15,170,006**	**(56,057,195)**
260. Year-end income taxes for continuing operations	(4,037,826)	28,668,834
270. Income (loss) after tax from continuing operations	**11,132,180**	**(27,388,361)**
290. Profit (loss) for the year	**11,132,180**	**(27,388,361)**

PERFORMANCE INDICATORS

Economic and financial ratios and other information	30.06.2017	31.12.2016
Financial Indicators		
Structural ratios		
Loans to customers / direct funding from customers (retail)	109.0%	103.7%
Fixed assets / total assets	2.8%	2.9%
Total risk-weighted assets (RWA) / total assets	64.7%	66.3%
Goodwill / total assets	1.0%	1.1%
Direct funding / total assets	72.8%	76.3%
Managed funding / indirect funding	57.1%	56.0%
Leverage (*)	12.39	14.25
Inter-bank balance (thousands of Euro)	(1,128,163)	(1,043,090)
Number of employees	1,360	1,372
Number of bank branches	177	184
Profitability ratios		
ROTE and its components (**)		
1. ROA (net profit / total assets)	**0.2%**	**0.1%**
- net interest income/total assets	1.6%	1.5%
- non-interest income/total assets	1.3%	1.4%
- operating costs/total assets	2.1%	2.1%
Net adjustments to loans / net loans to customers	**0.6%**	**1.3%**
- net other income/total assets	-0.2%	0.3%
- loans to customers/total assets	73.0%	74.6%
- ROA (before adjustments to loans)	0.7%	1.1%
2. Leverage (total assets/tangible equity)	**12.5**	**12.8**
- tangible equity/total assets	8.0%	7.8%
3. ROTE = ROA x Leverage	**2.9%**	**1.1%**
Cost to income ratio	70.0%	72.2%
Cost of risk (Net adjustments to loans / gross loans to customers)	57 BPS	123 BPS
Basic EPS (earnings per share - earnings per share basis)	0.45	0.16
Diluted EPS (earnings per share - earnings per diluted share)	0.44	0.15
Risk ratios		
Net non-performing loans / net loans to customers	9.2%	9.9%
Texas ratio (net non-performing loans / tangible equity)	83.1%	90.3%
Degree of doubtful loan hedging (***)	52.9%	50.8%
Degree of impaired loan hedging (***)	42.7%	40.2%
Degree of performing loan hedging	0.8%	0.8%
Prudential aggregates (thousands of Euro) and capital ratios		
Common Equity Tier 1 (CET 1)	709,915	724,068
Total own funds	713,332	724,068
Total risk-weighted assets (RWA)	6,166,791	6,176,347
CET 1 Ratio - Tier 1 capital	11.5%	11.7%
Total capital ratio - Total own funds	11.6%	11.7%
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	5,104,092	5,182,614
Loans to customers per employee	5,055,542	4,903,223
Assets under management per employee	1,543,827	1,416,168
Administered assets per employee	1,159,294	1,111,370

(*) Leverage = total tangible assets (total assets net of intangible fixed assets) / tangible equity (total equity net of intangible fixed assets).
(**) ROTE - Expresses net profit as a ratio of average tangible equity. Tangible equity is calculated by deducting intangible assets from shareholders' equity.
(***) values are net of default interests