Volksbank: Great satisfaction over the results for FY 2017 / Return to a dividend

Bolzano, 09 February 2018

The results for FY 2017 easily confirm targets: Net profits of 24.3 million bear out the solidity of the income and equity position, confirming the strategic sustainability of a fair dividend of 0.20 euros/share.

The Volksbank Board of Directors approved on 9th February the financial statements for year ended 31 December 2017.

The Bank has confirmed its status as an entity well able to assure growth and a positive income contribution from both traditional banking and the provision of services

- Net profits come in at +24.3 million thanks to growth in all the main income components and the governance of the cost of risk (net profits +16.6 million and vs the +7.7 million of 2016).
- the contribution made by extraordinary items, which are negative for a total of -3.9 million, includes non-recurring expenses in the amount of -13.6 million (including the Resolution and deposit protection fund, Atlante, the voluntary scheme) and non-recurring proceeds in the amount of +9.6 million (equity investments and TTRO benefit);
- ROTE 3.2% (1.1% in 2016);
- interest margin at +151.9 million (+9.4% on the +138.9 million of 2016) and net commissions at +88.2 million (+7.4% on the +82.1 million of 2016), net interest and other banking income +5.9% to +257.7 million (it was +243.4 million in 2016);
- value adjustments to loans and other financial transactions of -59,5 million in significant reduction (-35,2% compared to -91,9 million of 2016).

Growth sustained by the main characteristic aggregates

- +1.1 billion in new gross loans given during the year to companies and households;
- 325 performing loans for 64.5 million to companies and private parties in 2017;
- direct deposits from customers up YOY by +3.4% to 7,351.4 million (deposits +8.8%);
- indirect deposits down YOY up by +10,2% to 2.775,6 million (it was 2.518,1 million in 2016);
- balanced growth in deposits and lending: loans to customers/direct deposits from retail customers (not including *wholesale*) at 103.6%

High-quality loan portfolio thanks to efficient monitoring and strengthening of the oversight processes

- management of the portfolio of impaired loans reduces its risk profile:
  - the reduction of stock in 2017 was -160 million, well above the objectives and able to significantly cut the reduction objectives regarding values in line with those prior to the integration of the Banca Popolare di Marostica Group;
  - The flow of impaired loans comes in at minimum values and 2.6% of total gross loans;
  - gross impaired loans 12.9% of total gross loans as compared with 15.5% in 2016 (gross doubtful loans 8.3% vs 9.6% in 2016, gross unlikely to pay 4.5% vs 5.7%).
- strengthening of oversight processes:
  - level of cover of impaired loans at 43.5% (doubtful loans 53.7%, unlikely to pay 25.7%, past-due 8.1%) compared to 40.2% in 2016;

- cover of performing loans 0.8%, showing no change on 2016;
- cost of borrowing down and equal to 70 BPS (123 BPS in 2016).

Solid capitalisation confirmed

- Total capital ratio up to 13.6% and CET 1 ratio 11.9% (both 11.7% as at 31 December 2016), thanks to the positive result for the period and the issue of TIER 2 instruments during the second half of the year;

Excellent LCR:

- The Liquidity Coverage Ratio is much higher than the 100% provided for as the target figure under Basel III;
- The Net Stable Funding Ratio calculated in accordance with Basel III rules is over 100%;
- Eligible and available assets almost entirely comprised of government securities amounted to 960 million, which can easily cover the payments due on bonds for the next three years.

The Chairman, Otmar Michaeler, declares: "With these excellent results, Volksbank has once again shown its capacity to generate income. We have managed to considerably improve both margins and volumes in our core business. This good performance and sound equity position provide a firm basis on which to propose distribution of a dividend of 0.20 euros/share for the almost 60,000 shareholders of Volksbank - making for a 40 percent share in net profits. Moreover, we have achieved these results in a particularly complex market context, continuing to support the territory, families and small and medium-sized enterprises. In 2018, the Bank will be looking to further strengthen its key role as regional point of reference. The business model will remain based on solid equity and strengthening high quality revenues. The 2018 business plan objectives are confirmed, striving towards net profits of around 35 million euros, supported by this year's excellent performance."

The General Manager, Johannes Schneebacher, stresses: "Our FY 2017 results have exceeded our expectations. Last year, Volksbank found the best solutions for our customers, with drive and commitment: we have successfully generated profitability on the main core business profiles, with growth in the interest margin and net commissions, controlling risk. The cost-income ratio highlights considerable improvement and risk management records very positive results, both with reference to stocks and flows of new impaired loans. The growth in volumes in all segments confirms the trust that the Bank is able to generate. These results confirm the Bank's capacity to face up to the challenges of digitisation and its continuous striving towards efficiency and growth, objectives that are even more challenging in an operative context that remains demanding".

The interest margin stood at +151.9 million and net commissions at +88.2 million, confirming solid income levels from customers (net commission accounts for +36.7% of all interest and commission). Interest expense is down -22.9%. Net commissions, up by +7.4% to +88.2 million, benefit from the increase in the asset component (+7.3 million and +8.0%), only partially offset by an increase in the liability component (+1.2 million and +13.6%).

Trading income amounted to +15,9 million in the 12-month period thanks to the positive contribution from trading activities (+2.3 million) and the AFS financial assets (+13,3 million). The result also benefits from the sale of the equity investment held in Consorzio Triveneto, which has enabled a capital gain of +4.3 million. Dividends and similar income contributed 4.5 million for the year.

Value adjustments to financial assets, amounting to -59.5 million, reflected the ongoing improvement in risk monitoring processes. These are penalised by expenses relating to investments in the banking system support schemes, which weighed this item down by -4.3 million.

Operating costs amounted to -164.5 million, with 5.9 million during the year going on contributions to the National Resolution Fund, the Deposit Guarantee Fund.

Volumes increased, confirming that the Bank is a decisive factor in the growth of the territory. Gross loans to customers increased YOY by +2.8% to 7,427.3 million, with new loans of 362.3 million. Taking account of the performing loans only, growth in new loans amounted to 1.1 billion.

Support to companies also emerged from the number of performing loans in 2017, which amounted to 325 for a total of 64.5 million.

Direct deposits increased by 3.4% YOY (+240.9 million) to 7,351.4 million, thanks to the positive performance of demand deposits which more than offset the reduction in bond funding. Indirect deposits dropped by -1.8% to 3,405.2 million. The reduction is entirely due to the repricing of own issue shares; net of this component, indirect deposits record growth of +10.2% to 2,775.6 million, as compared with the 2,518.1 million of 2016, with a positive result of assets under management (+13.9% to 2,213.7 million) and a marginal change in administered assets (-2.3% to 562.0 million).

Credit risk is constantly monitored, which meant increasing the facilities working in this area, and continued reinforcement of the oversight processes, with the rate of cover of impaired loans up to 43.5% compared to 40.2% in 2016.

New impaired loans have remained constant at 2.6% of total gross loans. Gross impaired loans are 12.9% of gross loans, down on the 15.5% booked at end 2016. Gross doubtful loans amounted to 8.3% of the total gross loans, gross unlikely to pay amounted to 4.5% and gross past-due amounted to 0.14%. There was reinforcement in all the main departments, the coverage of doubtful loans amounted to 53.7% (50.9% in 2016), unlikely to pay amounted to 25.7% (23.3% in 2016). The level of cover of performing loans declines slightly to 0.8%. The cost of borrowing amounted to 70 BPS compared to 123 BPS in 2016.

The priority in remunerating shareholders by means of a fair, sustainable cash dividend is supported by the achievement of results that are well in line with the strategic objectives and allow for the proposal, for FY 2017, of the distribution of 9.7 million in profits, equal to a payout ratio of 40% and corresponding to 0.20 euros per share.

MAIN INCOME STATEMENT FIGURES

Despite the strong competitive pressure and the maintenance of applicable interest rates, which are negative in the short term, loan and deposit activity by the retail network meant that net interest income of +151.9 million was recorded during the year, compared to +138.9 as at 31 December 2016.

Net commissions amounted to +88.2 million compared to +82.1 million in 2016. More specifically, commission income on guarantees issued amounted to +3.6 million (the same as 2016), commissions for management, intermediation and consultancy services amounted to +29.0 million (+25.9 in 2016), commissions for collection and payment services amounted to +8.0 million (+7.2 in 2016), commissions for holding and managing current accounts amounted to +41.8 million (+40.6 million in 2016) while other service income amounted to +15.4 million (compared to +13.1 million in 2016).

Commission expense amounted to -9.7 million compared to -8.5 million in 2016. More specifically, -0.3 million were for guarantees received, -2.2 million for management and intermediation services, -0.6 million for collection and payment services and -6.7 million for other services.

The result of the trading activity amounted to +15.9 million compared to +16.2 million in 2016. More specifically, the result of the trading activity amounted to +2.3 million (+2.2 million in 2016), the component relating to Available For Sale financial assets amounted to +13.3 million (+13.6 million in 2016) and the component relating to trading financial liabilities amounted to +0.4 million (+0.3 million in 2016).

Value adjustments to financial assets amounted to -59.5 million compared to -91.9 million in 2016. The impairment of loans amounted to -52.0 million (-89.2 million in 2016), while value adjustment to Available For Sale instruments, amounted to -7.4 million compared to -2.3 million in 2016, this item includes expenses relating to participation in the banking system support schemes (Voluntary scheme of the FITD, Atlante) for -4.3 million.

Operating costs amounted to -164.5 million compared to -170.6 million in 2016. The above-mentioned contributions to the Resolution Fund, the Deposit Guarantee System and the Voluntary Interbank Fund to protect deposits scheme were particularly significant this year, amounting to a total of 5.9 million. More specifically, personnel costs amounted to -99.8 million compared to -99.1 million in 2016. Other administrative expenses amounted to -74.7 million compared to -82.5 million in 2016. Provisions for risks and charges rose to -2.7 million, compared to -0.7 million in 2016, value adjustments to property and equipment and intangible assets amounted to -8.4 million, while other net operating income remained stable at +21.0 million.

Losses on investments and the sale of investments are -0.8 million.

The result from current operations, before tax, amounted to +32.9 million compared to -14.0 million in 2016.

Tax is -8.6 million.

Profit after taxes amounted to +24.3 million compared to 7.7 million the previous year.

MAIN AGGREGATE BALANCE SHEET ITEMS

The direct deposits from customers including the wholesale component (due to customers, outstanding securities issued and financial liabilities designated at fair value) stood at 7,351.4 million, an increase of +3.4% compared to end 2016 (7,110.5 million). More specifically, there was growth in deposits from current and accounts deposits (+8.8% and +456.3 million) compared to a fall of -13.9% in bond funding, including deposit certificates (954.6 million compared to 1,108.7 million in 2016).

Direct funding from customers, excluding the wholesale component, amounted to 6,718.7 million, an increase of +3.6%.

The customers' high regard for the Bank is evident from this, in terms of both debt securities and current accounts and deposits: In fact, the wholesale component represents only 8.6% of the direct deposits.

Indirect deposits, net of the Bank's shares, grows by +10.2% to 2,775.6 million. Securities held in custody and under administration (always net of the Bank shares) amount to 562.0 million, investment funds totaled 1,592.9 million, while the insurance component amounted to 620.8 million.

Loans to Customers, net of value adjustments, amounted to 6,961.7 million, up 3.5% from the beginning of the year. The loan/deposit ratio stood at 103.6% (103.7% at the end of 2016).

Total net impaired loans were 542.5 million, -18.9% from the beginning of the year, with doubtful loans amounting to 284.7 million (-16.8%); they amounted to 7.8% and 4.1% respectively of the total net loans to customers (comparison with gross loans gave 12.9% and 8.3%, respectively).

Coverage levels were strengthened in all departments. The coverage rate for impaired loans rose to 53.7% (it was 50.9% at the end of 2016). The coverage rate for unlikely to pay loans rose to 25.7% (23.3% at the end of 2016) and the coverage rate for impaired loans rose to 43.5% (40.2% at the end of 2016).

The net interbank position was negative for -1,040.9 million (compared to -1,043.1 million at the end of 2016), deriving from the imbalance between due from banks of 109.7 million (41.9 in 2016) and similar payables of 1,150.7 million (1,085.0 in 2016).

The liquidity profile continues to be positive, and will be easily able to meet payment due commitments for 2018 thanks to the significant amount of eligible securities/receivables with the ECB, equal to 2.0 billion, with an actual availability of 960 million, already subject to haircut.

Financial assets totalled 1,930.9 million, up by +1.2% compared to year-end 2016.

The capital requirements to be met in total in terms of Common Equity Tier 1 Ratio and Total Capital Ratio are respectively equal to 9.00% and 11.63% according to the transitional criteria in force for 2018, and 9.00% and 12.25% according to the operative criteria. The supervisory aggregates, calculated on the basis of standard Basel III methods, remained at levels that are much higher than the minimum prudential requirements:

- Common Equity TIER 1 and Own Funds of 821.5 million (+13.5%);
- CET 1 Ratio estimated at 11.9% (compared to 11.7% at the end of 2016);
- Total capital ratio estimated at 13.6% (11.7% at the end of 2016).

In addition to the information presented, the Balance Sheet and Income Statement as at 31 December 2017 compared with the prior year, as well as a summary of key indicators, are attached hereto.

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The Manager responsible for the preparation of corporate accounting documents, Alberto Caltroni, hereby states, in accordance with art. 154-bis, paragraph 2 of Italian Legislative Decree no. 58/1998, that the accounting information given in this press release corresponds to the documentary records, the accounting books and the account entries.

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

BALANCE SHEET

Asset items *(figures in euros)*		**31.12.2017**	**31.12.2016**
10.	Cash and cash equivalents	71,358,997	59,170,988
20.	Financial assets held for trading	11,531,233	14,394,347
40.	Financial assets available for sale	1,090,651,594	1,625,719,283
50.	Financial assets held to maturity	822,971,649	260,923,680
60.	Due from banks	109,745,557	41,916,636
70.	Loans to customers	6,961,711,865	6,727,222,564
100.	Investments	5,793,248	6,913,336
110.	Property and equipment	139,577,074	142,475,976
120.	Intangible assets	119,213,815	120,370,270
	of which:		
	- goodwill	99,601,776	99,601,776
130.	Tax assets	169,106,370	183,995,804
	a) current	59,540,633	59,943,447
	b) prepaid	109,565,737	124,052,357
	of which L.214/2011	69,457,433	79,438,462
150.	Other assets	136,274,793	132,982,832
Total assets		**9,637,936,195**	**9,316,085,716**

Liability items and shareholders' equity *(figures in euros)*		**31.12.2017**	**31.12.2016**
10.	Due to banks	1,150,659,435	1,085,006,401
20.	Due to customers	6,396,871,221	6,001,785,846
30.	Debt securities issued	944,837,002	1,099,040,171
40.	Financial liabilities held for trading	2,074,535	2,269,549
50.	Financial liabilities designated at *fair value*	9,738,439	9,720,698
80.	Tax liabilities	33,831,834	31,850,865
	a) current	3,668,215	*1,844,721*
	b) deferred	30,163,619	*30,006,144*
100.	Other liabilities	190,010,556	187,328,133
110.	Employee termination indemnities	19,751,789	20,523,562
120.	Provisions for risks and charges:	16,791,778	17,139,791
	a) pensions and similar commitments	-	-
	b) other provisions	16,791,778	*17,139,791*
130.	Valuation reserves	681,778	(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
190.	Own shares	(18,553,559)	
200.	Profit (loss) for the year	24,277,481	7,721,587
Total liabilities and shareholders' equity		**9,637,936,195**	**9,316,085,716**

INCOME STATEMENT

INCOME STATEMENT	31.12.2017	31.12.2016
(figures in euros)		
10. Interest and similar income	181,256,313	176,930,136
20. Interest and similar expense	(29,320,643)	(38,031,970)
30. Interest margin	**151,935,670**	**138,898,166**
40. Fee and commission income	97,895,095	90,620,801
50. Fee and commission expense	(9,689,201)	(8,526,675)
60. Net commissions	**88,205,894**	**82,094,126**
70. Dividends and similar income	4,476,479	6,453,969
80. Net income from trading activities	2,281,525	2,213,643
100. Profits (losses) on disposal or repurchase of:	10,829,366	13,699,432
a) receivables	(2,871,380)	*(258,114)*
b) financial assets available for sale	13,278,185	*13,633,780*
c) financial assets held to maturity	1,872	*(8)*
d) financial liabilities	420,689	*323,774*
110. Profits (losses) on financial assets and liabilities designated at fair value	(66,841)	152
120. Net interest and other banking income	**257,662,093**	**243,359,488**
130. Net adjustments to/recoveries on impairment of:	(59,501,999)	(91,891,075)
a) receivables	(52,046,970)	*(89,205,421)*
b) financial assets available for sale	(7,403,397)	*(2,260,305)*
c) financial assets held to maturity	-	-
d) other financial transactions	(51,632)	*(425,349)*
140. Net income from banking activities	**198,160,094**	**151,468,413**
150. Administrative expenses:	(174,426,100)	(181,564,617)
a) personnel costs	(99,771,207)	*(99,090,206)*
b) other administrative expenses	(74,654,893)	*(82,474,411)*
160. Net provisions for risks and charges	(2,689,594)	(671,851)
170. Net adjustments to/recoveries on property and equipment	(7,042,860)	(7,368,327)
180. Net adjustments to/recoveries on intangible assets	(1,336,198)	(1,848,253)
190. Other operating income/expenses	21,000,211	20,950,554
200. Operating costs	**(164,494,541)**	**(170,502,494)**
210. Profits (losses) on investments	(1,067,588)	2,438,900
240. Profits (losses) on disposal of investments	305,619	2,554,000
250. Current operating profit (losses) before tax	32,903,584	**(14,041,181)**
260. Year-end income taxes for current operations	(8,626,103)	21,762,768
290. Profit (loss) for the year	**24,277,481**	**7,721,587**

PERFORMANCE INDICATORS

PERFORMANCE INDICATORS	31.12.2017	31.12.2016
Financial Indicators		
Structural ratios (%)		
Loans to customers/direct deposits	103.6%	103.7%
Fixed assets / total assets	2.7%	2.9%
Total risk-weighted assets (RWA) / total assets	63.8%	66.3%
Goodwill / total assets	1.0%	1.1%
Direct funding / total assets	76.3%	76.3%
Managed funding / indirect funding	65.0%	56.0%
Leverage*	12.32	14.25
Interbank balance (in thousands of Euro)	(1,040,914)	(1,043,090)
Number of employees (current)	1,366	1,372
Number of bank branches	177	184
Profitability ratios (%)		
1. ROA (net profit / total assets)	**0.3%**	**0.1%**
- interest margin/total assets	1.6%	1.5%
- non interest income/total assets	1.3%	1.4%
- operating expenses/total assets	2.0%	2.1%
Net adjustments to loans / net loans to customers	**0.7%**	**1.3%**
- net other income/total assets	-0.2%	0.3%
- loans to customers/total assets	73.5%	74.6%
- ROA (before the adjustments to loans)	0.8%	1.1%
2. Leverage (total assets/tangible equity)	**12.6**	**12.8**
- tangible equity/total assets	7.9%	7.8%
3. ADJ ROTE = ROA X Leverage	**3.2%**	**1.1%**
Cost to income ratio	65.6%	72.2%
Cost of risk (Net adjustments to loans / gross loans to customers)	70 BP	123 BP
Basic EPS (earnings per share - earnings per share basis)	0.49	0.16
Diluted EPS (earnings per share - earnings per diluted share)	0.49	0.15
Risk ratios (%)		
Net non-performing loans / net loans to customers	7.8%	9.9%
Texas ratio (net non-performing loans / net tangible equity)	71.9%	90.3%
Degree of doubtful loan hedging	53.7%	50.8%
Degree of non-performing loan hedging	43.5%	40.2%
Degree of performing loan hedging	0.8%	0.8%
Own funds and capital ratios		
Tier 1 capital (CET 1)	724,068	724,068
Total own funds	724,068	724,068
Total risk-weighted assets (RWA)	6,176,347	6,176,347
CET 1 Ratio - Tier 1 capital	11.7%	11.7%
Total capital ratio - Total own funds	11.7%	11.7%
Non-Financial Indicators		
Productivity ratios		
Direct funding per employee	5,381,733	5,182,614
Loans to customers per employee	5,096,422	4,903,223
Assets under management per employee	1,620,553	1,416,168
Administered assets per employee	872,262	1,111,370
Net interest and other banking income per employee	188,625	177,376