

Volksbank: net profit of Euro 31.5 million in the first half of 2022, tangible equity grows further to Euro 809 million

Today, the Board of Directors approved Volksbank's results for the first half of 2022 with a net profit after tax of Euro 31.5 million, equivalent to an 8% RoTE. Shareholders' tangible equity rose to Euro 809 million, corresponding to 16.85 Euro per share.

Volksbank's 2022 half-year results confirm the bank's newfound profitability and strength, far exceeding the expectations of the 'Sustainable 2023' business plan, which will be completed in about a year's time.

Among the main results, the following are particularly noteworthy:

- **an increase in the Bank's core revenues of 17% to over Euro 150 million in the first half of the year**, thanks to double-digit growth in net commissions (11.5% increase, driven particularly by the **excellent new digital services** of credit cards, collections and payments, personal finance and internet banking) and an increase of around 20% in net interest income, which grew in both volumes and margins;
- a **steady growth in volumes and customers**, driven by the **excellent quality of customer service**, further confirmed by internal and public satisfaction surveys. Assets under administration grew by 2.1% (Euro +436 million) compared to June 2021 to around Euro 21 billion;
- **sound credit risk management** reduced the cost of risk by 27% to 61 basis points in annualised terms;
- **stable operating costs** unchanged despite the strong inflationary environment, as a result of constant action to contain costs and services used. The Cost-income ratio remained at 51%, at levels of absolute excellence;
- the increase in the **Bank's solidity**, also recognised by the Rating Agencies, which raised the Bank's assessment to BB+ Stable. Volksbank now has more than Euro 360 million of **CET 1 capital buffer**, with a total capital ratio (TCR phased-in) at 17.6%;
- a steady **profitability**, with a return on assets at 7.8% in annualised terms and a pre-tax profit of more than Euro 47 million, in line with the first half of 2021, which, however, benefited from significant extraordinary items.

Chairman **Lukas Ladurner** said: *"The results for the first half of 2022 confirm the continued effectiveness of the work of our staff, whom I thank on behalf of the Board of Directors for the commitment with which they are implementing our Sustainable 2023 Business Plan, despite challenging operating conditions due to the pandemic and the war. This result shows how, net of the important one-off positive economic effects on the financial margin and tax items in 2021, the Bank has significantly improved its industrial profitability and solidity. In particular, this last aspect*

makes me confident that when approving the financial statements for 2022, the Board of Directors, whilst respecting the guidelines expressed by the Supervisory Authorities, will be able to approve a new significant distribution of dividends to shareholders".

General Manager **Alberto Naef** added: *"We are constantly improving the Bank's current operational effectiveness, meeting customers' needs in the best possible way with advice and digital services and generating sustainable income. It has been a complicated half-year between latent pandemic, the Russia-Ukraine war and inflation, which has triggered instability in the markets and led the Central Banks to act vigorously in raising rates. Volksbank worked alongside its customers, accompanying them on their journey and absorbing the impacts of this volatile scenario. Once again, this year we are generating profitability at the best levels in the market of European Commercial Banks, exceeding the expectations of the Sustainable 2023 Business Plan, even without any extraordinary positive effects. We are also very confident about the results of the second half of the year, thanks to the quality of the services offered and are proud of the awards received in sustainability, with a rating by S&P Global Ratings of 66/100, our entry in the 200 most sustainable Italian companies for IISole24Ore and the Integrated Governance Index 2022 by ETicaNews."*

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Volksbank (founded in 1886) with its registered office in Bolzano, is present as a regional bank not only in its home market of Alto Adige but also in the North-East of Italy in the provinces of Trento, Belluno, Treviso, Pordenone, Vicenza, Padua and Venice. Volksbank has a total of 159 branches. The bank has approximately 1,300 employees.

SUMMARY DATA

Profit and Loss Account Items	30/06/2022	30/06/2021	Abs. change	% change
<i>(amounts in thousands of Euro)</i>				
Net interest income	100,561	84,085	16,476	19.6%
Net commissions	49,970	44,829	5,141	11.5%
Core revenues	150,531	128,914	21,617	16.8%
Financial income	10,066	42,780	(32,714)	-76.5%
Net income from banking activities	160,597	171,693	(11,097)	-6.5%
Operating expenses	(91,465)	(91,569)	104	0.1%
Net operating profit (loss)	69,131	80,124	(10,993)	-13.7%
Net losses for credit risk	(22,004)	(30,399)	8,396	27.6%
Net income (loss) before taxes	47,128	49,725	(2,597)	-5.2%
Income taxes	(15,567)	569	(16,136)	-2835.0%
Net income (loss) for the period	31,560	50,294	(18,734)	-37.2%

Main balance sheet figures	30/06/2022	30/06/2021	Abs. change	% change
<i>(amounts in millions of Euro)</i>				
Direct customer deposits	8,145	7,797	347	4.5%
Indirect customer deposits (excluding Volksbank shares)	4,083	3,966	117	3.0%
Gross loans to customers	7,537	7,530	7	0.1%
Total administered assets	20,827	20,391	436	2.1%
Net tangible equity	809	799	10	1.2%

Solidity ratios	June 2022	June 2021
CET 1 ratio (fully loaded)	14.7%	14.4%
Total Capital Ratio (fully loaded)	17.2%	16.9%
Net NPL ratio	2.9%	2.6%
Texas ratio	43.5%	43.4%
Bad loans coverage ratio	69.4%	68.7%
Unlikely to pay loans coverage ratio (UTP)	40.9%	42.4%
Performing loans coverage ratio	1.16%	1.24%
Cost-income ratio	51.0%	47.2%

HIGHLIGHTS

Net profit:

- half-year profit at Euro +31.6 million, compared to Euro +50.3 million in the first half of 2021

Current profit before tax

- stands at Euro 47.1 million, compared to Euro 49.7 million in the first half of 2021

Operating costs:

- personnel expenses at Euro 52.4 million, up +1.9% from Euro 51.4 million in the first half of 2021
- other administrative expenses, excluding levies and other charges concerning the banking system, at Euro 22.7 million, down from Euro 22.9 million in the first half of 2021

High efficiency:

- cost-income ratio remains at an excellent level of 51.0% compared to 47.2% at the end of the first half of 2021

Cost of risk:

- at 61 bp in annualised terms, down from 85 bp at 30 June 2021

Improvement in credit quality:

- proactive credit management, with total adjustments to impaired loans of Euro 244.2 million, compared to Euro 242.1 million in 2021
- stock of gross impaired loans stable at Euro 458 million, compared to Euro 448 million at the end of 2021. Gross NPL ratio stable at 5.98%, compared to 5.8% at the end of 2021. Net NPL ratio stable at 2.9%, compared to 2.7% at the end of 2021

High degree of hedging on impaired loans:

- non performing loans coverage ratio at 53.4%, compared to 54.0% at the end of 2021. Coverage of bad loans at 69.4% (67.8% at the end of 2021), of unlikely to pay loans at 40.9% (40.7% at the end of 2021) and of past due loans at 28.6% (26.7% at the end of 2021)

- solid buffer on performing loans, thanks to a coverage of 1.16%, compared to the 0.6% average of the Italian banking system

Solid capital strength: capital ratios are well above the required minimums:

- Core Tier 1 ratio fully-phased at 14.7%, compared to 14.7% at the end of 2021
- Total Capital Ratio fully-phased at 17.2%, compared to 17.2% at the end of 2021

High liquidity and funding:

- as at June 2022, liquid assets of approximately Euro 1,158 million and high level of readily available liquid assets at Euro 1,933 million
- Liquidity Coverage Ratio (229%) and Net Stable Funding Ratio (138.5%) are largely within the risk limits
- Financing transactions with the ECB to optimise the cost of funding and support the investments of business customers amounted to Euro 2,500 million as at June 2022, consisting entirely of TLTRO III

Economic support and active presence in support of local communities:

- total disbursements for mortgages in the last year amount to Euro 1.2 billion

SUMMARY OF RESULTS

Bolzano, 5 August 2022. Today, the Board of Directors of Volksbank approved the half-yearly financial report as at 30 June 2022. The Bank marks an improvement in capital ratios, operational efficiency and the quality of balance sheet assets. The cost of risk has significantly improved compared to the previous year. The new capital and income dynamics and new strategic positioning enable the Bank to handle the uncertainty in the scenario:

- a virtuous growth in customers and volumes, driven by an expanded product range and specific expertise in mortgages to private customers and in the sectors of tourism, manufacturing, agri-food and real estate;
- a native digital omnichannel, capable of implementing the concept of “Everywhere Banking”, offering Volksbank customers the opportunity to fully manage their banking relationship, also through access to best-in-class digital channels;
- a specific focus on 360-degree sustainability, which involves the Bank's daily operations (real estate, trade union relations, users, etc.), the ability to develop and finance sustainable projects, and the offer of ESG mutual funds;
- the proactive management of risks affecting balance sheet assets, thanks to the careful application of government measures to support the resilience of businesses and households and the management and monitoring of credit risk resulting from the COVID-19 pandemic;
- process efficiency, in order to support commercial development, the specialisation of branch resources and to make responses to customers faster and more accurate;
- the control system as a whole, to anticipate market changes and redirect the Bank's activities;
- human capital, to increasingly enhance the professional skills of advisory and guide customers in new omnichannel processes.

FINANCIAL PERFORMANCE

The income statement posted net interest of Euro 100.6 million, up by +19.6% compared to Euro 84.1 million of the first half of 2021.

The contribution from operations with customers was Euro 70.1 million. Interest on financial assets amounted to Euro 17.8 million. Net interbank interest recorded a balance of Euro +17.1 million. Interest expense on debt securities (bonds and TIER 2) amounted to Euro -4.3 million.

Net fee and commission income stand at Euro 50.0 million, compared to Euro 44.8 million of the first half of 2021. In detail, there was a +10.6% increase in fees and commissions from commercial banking activities to Euro 30.3 million and a +10.1% increase in fees and commissions from placement and advisory services (insurance products, securities placement) to Euro 15.9 million, within which the component relating to placement of managed asset products rose by +2.1% and that relating to bancassurance increased by +7.9%, while the component relating to administered assets rose by +11.3%.

The net financial result, which includes the overall performance of the proprietary portfolio, was Euro 10.2 million, compared to Euro 43.3 million in the first half of 2021. The component relating to profit (loss) on trading amounted to Euro +1.7 million, compared to Euro +1.0 million in the first half of 2021. The contribution of financial assets designated at fair value through other comprehensive income amounted to Euro +2.8 million in 2022, against Euro +2.7 million in the first half of 2021. The component relating to net profit (loss) from other assets and liabilities designated at fair value stood at Euro +1.1 million, compared to Euro -1.2 million in the first half of 2021.

The component relating to financial assets measured at amortised cost is Euro +0.5 million, compared with Euro +38.4 million in the first half of 2021.

Other net operating income and expenses amounted to Euro -1.0 million, down from Euro -0.7 million in the first half of 2021.

The aggregate value of other operating income was therefore Euro 9.1 million, compared to Euro 42.6 million in the first half of 2021.

Net operating income came to Euro 159.6 million, compared to Euro 171.5 million in the first half of 2021.

Operating costs, which include personnel expenses, administrative expenses net of expenditure recoveries and depreciation of tangible and intangible assets, amounted to Euro 81.4 million, stable compared to Euro 81.0 million in the first half of 2021, personnel expenses at Euro 52.4 million compared to Euro 51.4 million in the first half of 2021, administrative expenses decreased to Euro 22.7 million, -1.0% compared to Euro 22.9 million in the first half of 2021, while the result from tangible and intangible assets was stable, with a net result of Euro -6.3 million compared to Euro -6.7 million in the first half of 2021.

Consequently, net operating profit amounted to Euro 78.2 million, compared to Euro 90.5 million in the first half of 2021.

Net adjustments on loans to customers amounted to Euro -19.9 million, compared to Euro -29.4 million in the first half of 2021. Net value adjustments to other assets and liabilities, which include impairment on tangible and intangible assets as well as net adjustments to financial assets and liabilities other than loans to customers, amounted to Euro -2.6 million, compared to Euro -0.3 million in the first half of 2021. Net provisions for risks and other charges reached Euro -1.3 million, compared to Euro -1.0 million in the first half of 2021.

Net income from the sale of equity shareholdings and investments amounted to Euro -0.1 million, compared to Euro -0.6 million in the first half of 2021.

Contributions and charges related to the banking system net of taxes amounted to Euro 7.3 million.

The net result for the first half is Euro 31.6 million, compared to Euro 50.3 million in the first half of 2021.

DEVELOPMENTS IN THE MAIN BALANCE SHEET AGGREGATES

As at 30 June 2022, loans to customers valued at amortised cost stand at Euro 7,412 million, stable compared to Euro 7,467 million at the end of 2021.

The financial assets of customers stand at Euro 12,885 million, down -6.1% compared to Euro 13,697 million at the end of 2021. With regard to customer financial assets, direct bank funding from customers amounted to Euro 8,772 million, down -4.6% compared to Euro 9,198 million at the end of 2021. Indirect funding amounted to Euro 4,469 million, down -8.6% compared to Euro 4,891 million at the end of 2021. Net of Volksbank shares held, indirect customer deposits decreased by -9.2% to Euro 4,083 million, compared to Euro 4,499 million at the end of 2021.

In particular, total assets under administration related to third-party products was Euro 3,001 million, down by -5.9% compared to Euro 3,189 million at the end of 2021.

Administered under custody (excluding Volksbank shares) stood at Euro 1,082 million, down by -17.4% from Euro 1.310 million as at 31 December 2021.

Total non performing loans, net of value adjustments, amounted to Euro 213.5 million, up by +3.7% compared to Euro 205.9 million at the end of 2021. In this context, net bad loans amounted to Euro 62.9 million, down by -13.6% compared to Euro 72.7 million as at 31 December 2021, representing 0.9% of total net loans (1.0% as at 31 December 2021), with a coverage ratio of 69.4% (67.8% at the end of 2021). Net unlikely to pay loans amounted to Euro 142.6 million compared to Euro 126.4 million in December 2021, and net past-due/overdue loans totalled Euro 8.0 million compared to Euro 6.8 million at the end of 2021.

Total gross non performing loans were Euro 457.7 million, +2.2% from the start of the year, with a gross bad loans at Euro 205.3 million (-9.1%); these amounts respectively

represent 6.0% (5.8% at the end of 2021), and 2.7% (2.9% at the end of 2021) of total gross loans to customers.

The degrees of coverage were strengthened in all the main segments. As previously mentioned, the coverage ratio for bad loans has reached 69.4% (67.8% at the end of 2021), the coverage ratio for unlikely-to-pay loans rose to 40.9% (40.6% at the end of 2021) and the coverage ratio for non performing loans was 53.4% (54.0% at the end of 2021).

Financial assets other than loans, valued at amortised cost, totalled Euro 3,038 million, up +5.8% compared to Euro 2,870 million at the end of 2021. Financial assets designated at fair value through profit or loss amounted to Euro 103.5 million compared to Euro 93.7 million at the end of 2021.

Financial assets designated at fair value through other comprehensive income totalled Euro 675.2 million, down by -0.8% compared to Euro 680.9 million at the end of 2021.

Tangible and intangible assets totalled Euro 153.2 million, up +1.5% from Euro 151.0 million recorded at the end of 2021. Tax assets amounted to Euro 148.9 million, down by -0.5% compared to Euro 149.6 million at the end of 2021, whilst groups of assets held for sale totalled Euro 4.4 million and refer to properties.

Own funds and capital requirements

The capital requirements to be met as at 31 December 2022, including the Capital Guidance, in terms of the Common Equity Tier 1 Ratio, TIER 1 Ratio and Total Capital Ratio, are at 8.20%, 9.94% and 12.25% respectively, according to the criteria in force for 2022. Own funds and capital ratios, determined according to the standard Basel III approach, show the continued strengthening of the requirements, which are well above the minimum prudential requirements:

- CET 1 Ratio and TIER 1 Ratio "IFRS 9 phased-in" estimated at 15.2%, down slightly from the 31 December 2021 figure of 15.5% due to the diminished benefit of the transitional period. The fully-loaded ratio stood at 14.7%, stable compared to 14.7% at the end of 2021;
- Total Capital Ratio "IFRS 9 phased-in" estimated at 17.6%, slightly down from the 31 December 2021 figure of 18.0% due to the diminished benefit of the transitional period. The fully-loaded ratio stands at 17.2%, stable compared to 17.2% at the end of 2021.

Liquidity and leverage ratios

The liquidity position as at June 2022 showed the following figures:

- readily available assets, including eligible Central Banks assets (excluding those given as collateral), amounted to Euro 1,933 million;
- ECB financing transactions to optimise the cost of funding and support customer loans averaged Euro 2,500 million in the first half of 2022 (averaged Euro 2,268 million in 2021), 100% of which were TLTRO operations with three year maturities;
- stable and well-diversified sources of funding, with direct funding from banks and customers (including securities issued), 71.3% of which referring to the retail component;
- medium-term and long-term funding of approximately Euro 3,235 million in the first half-year, of which more than Euro 2.932 million relating to the wholesale component;
- NSFR calculated in accordance with CRR2 regulation as at 30 June 2022 equal to 138.5%.

As at 30 June 2022, the operating structure was made up of 159 bank branches and 1,353 people.

In order to provide more complete information on the results achieved in the first half of 2022, herewith attached are the reclassified income statement and balance sheet included in the report approved by the Board of Directors. It should be noted that the independent auditors, appointed to perform a limited review of the semi-annual financial statements, have not yet completed their review.

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

BALANCE SHEET

Assets <i>(amounts in thousands of Euro)</i>	30/06/2022	31/12/2021
Loans to banks	1,161,198	1,601,169
Loans to customers	7,430,747	7,495,896
a) Loans to customers measured at amortised cost	7,412,463	7,466,817
b) Loans to customers valued at FVOCI and with FV in the income statement	18,284	29,079
Financial assets designated at AC and not classed as loans	3,038,186	2,870,430
Financial assets designated at FV through profit or loss	103,493	93,730
Financial assets designated at FVOCI	675,171	680,921
Investments	4,403	5,278
Tangible and intangible assets	153,225	151,031
- assets owned	132,632	133,379
- rights of use	20,593	17,652
Tax assets	148,838	149,630
Non-current assets and groups of assets held for sale	4,408	4,408
Other assets	303,176	230,898
Total assets	13,022,845	13,283,391
Liabilities and shareholders' equity <i>(amounts in thousands of Euro)</i>	30/06/2022	31/12/2021
Due to banks at amortised cost	2,638,602	2,668,837
Due to customers at amortised cost and securities issued	9,001,253	9,469,263
Financial liabilities held for trading	52	60
Financial liabilities designated at fair value	-	-
Tax liabilities	28,208	18,805
Liabilities associated with assets held for sale	-	-
Other liabilities	495,872	256,877
Provisions for risks and charges	35,204	37,537
- of which: commitment and guarantees issued	8,066	7,631
Share capital	201,994	201,994
Reserves	596,725	557,566
Valuation reserves	(6,625)	2,376
Equity instruments	-	-
Profit (Loss) for the period (+/-)	31,560	70,076
Total liabilities and shareholders' equity	13,022,845	13,283,391

INCOME STATEMENT

RECLASSIFIED INCOME STATEMENT ITEMS	30/06/2022	30/06/2021
<i>(amounts in thousands of Euro)</i>		
Interest margin	100,561	84,085
Net fee and commission income	49,970	44,829
First margin	150,531	128,914
Net financial result	10,175	43,338
Other operating income/expenses	(1,064)	(732)
Other operating income	9,111	42,606
Net operating income	159,642	171,520
Personell expenses	(52,408)	(51,428)
Administrative expenses	(22,680)	(22,900)
Net profit (loss) from tangible and intangible assets	(6,327)	(6,652)
Operating costs	(81,415)	(80,980)
Operating profit (loss)	78,227	90,540
Net adjustments to loans to customers	(19,853)	(29,351)
Adjustments to other assets and liabilities	(2,585)	(346)
Profit (loss) on disposal of participations and investments	(109)	(558)
Contributions and charges relating to the banking system	(7,274)	(9,547)
Net allocations to provisions for risks and charges	(1,279)	(1,013)
Profit (loss) on continuing operations	47,127	49,725
Income taxes	(15,567)	569
Profit (loss) for the period	31,560	50,294