## PRESS RELEASE

# Volksbank: Excellent 2018 result / Profit stands at Euro 34.3 million

***Bolzano, 8 February 2019***

**Today, the Board of Directors approved the results for 2018 which closed with a profit of Euro 34.3 million (+41%). Volksbank confirms excellent profitability levels and has strengthened as the reference regional bank for North-East Italy.**

### Core business growth

For the first time, the total balance sheet assets have exceeded the Euro 10 billion mark as a result of core business growth, which has seen an increase in market shares in the customer base, both businesses and households. Contributing to this growth have been Alto Adige's original market and the other provinces (Belluno, Padua, Pordenone, Trento, Treviso, Venice and Vicenza).

### Increase in core income

The ROTE (return on tangible equity) stood at 4.9% (3.2% in 2017), supported by the strong increase in performing loans to customers (+9.0% to Euro 6.8 billion), direct funding (+4.5% to Euro 7.7 billion), which have a positive impact on the interest margin (+8.9% to Euro 165.4 million) and on net fee and commission income (+1.0% to Euro 89.1 million).

### Excellent loans portfolio quality

The ratio of non-performing loans to total gross loans (the NPL ratio) stood at 8.7%, down compared to 12.9% at the end of 2017. The value is in line with the end of 2014, immediately prior to the merger of the Banca Popolare di Marostica Group (it was 9.1%).

"2018 was a good year, in which we achieved our planned objectives. The Board of Directors will make a proposal to the Shareholders' Meeting for the distribution of a Euro 0.27 per share dividend, amounting to 40% of distributable profit", said the Chairman, Otmar Michaeler.

"The 2018 result forms the basis for continuing the growth action. For the current year, we aim for a net profit in excess of Euro 40 million", the General Manager Johannes Schneebacher added.

## SUMMARY OF RESULTS

**The results are in line with planning objectives. Profitability and the soundness of the business model are confirmed.**

- net profit at Euro +34.3 million, up 41.1% and up Euro 10.0 million compared to 2017;
- interest margin reached Euro +165.4 million (+8.9% compared to Euro +151.9 million in 2017), net fee and commission income stood at Euro +89.1 million (+1.0% on 2017);
- net operating income at Euro 275.5 million, down by -1.8% compared to 2017 due to the persisting volatility of financial markets, offset by encouraging developments in the placement of third-party products;
- operating costs, net of non-recurring property charges for Euro 1.5 million, reached Euro 181.4 million (+2.8% compared to the end of 2017), due to the containment of personnel expenses which fell by -1.4% to Euro 98.3 million, to an increase in administrative expenses by +9.1% to Euro 74.5 million and adjustments to property, equipment and intangible assets which rose to Euro 8.6 million compared to Euro 8.4 million in 2017;
- the cost/income ratio was 66.4% (65.6% at the end of 2017);
- net adjustments to loans and other financial assets were down by -29.1% to Euro 38.9 million, compared to Euro 54.9 million in 2017;
- the contribution of non-current items refers to taxes relating to the banking system, for Euro 6.0 million after tax, deriving from charges before tax of Euro 4.9 million (Euro 3.5 million after tax) relating to the resolution fund and charges before tax of Euro 3.5 million (Euro 2.5 million after tax) relating to contributions to the deposit guarantee fund;
- ROE stood at 4.2%, up compared to 2.8% in 2017, whilst ROTE was 4.9% (3.2% in 2017).

**Action to strengthen credit quality anticipates instructions from the supervisory authority and positions the bank at values much higher than the system average**

- proactive management of the non-performing loans portfolio anticipates the supervisory authority instructions:
  - reduction of the gross stock by -31.0% to Euro 662.5 million, compared to Euro 959.5 million as at 31 December 2017, also the result of action taken already in the first half of the year and strongly exceeding the year's targets;
  - net of adjustments, the stock decreased by -31.7% compared to the end of 2017;
  - the flow of non-performing loans reached minimum values, equal to 1.8% of total gross loans;
  - impact of gross non-performing loans (NPL ratio) down to 8.7%, compared to 12.9% in 2017 (gross doubtful loans at 5.4% compared to 8.3% in 2017, gross unlikely to pay at 3.3% down from 4.5%).
- degrees of hedging of non-performing loans strengthened:
  - the degree of hedging of non-performing loans was 44.0%, against 43.5% in 2017 (doubtful loans 55.5%, unlikely to pay 26.1%, past due 7.9%);
  - hedging of performing loans was 0.9%, up compared to 0.8% at the end of 2017.

**The business model focused on the central nature of customer relations ensures growth in the main core aggregates**

- net performing loans to customers rose by 9.0% YoY to Euro 6,769.7 million, compared to the post-IFRS 9 figure of Euro 6,209.2 million at the end of 2017;
- direct funding from customers was up by +4.5% YoY to Euro 7,683.4 million (deposits +6.4%);
- indirect funding, net of Bank shares, was up by +4.2% to Euro 2,892.2 million (Euro 2,775.6 million at the end of 2017);
- balanced growth of funding and lending components: loans to customers/direct funding from customers at 110.1%.

**Capitalisation level confirmed as solid**

- The capital ratios were estimated by applying the transitional criteria in force for 2018, confirming the sound equity position: the CET 1 Ratio stood at 11.3% (11.9% at the end of 2017) and the Total Capital Ratio was 13.3% (13.6% at the end of 2017).

**Solid liquidity and funding position:**

- LCR equal to 126%, much higher than the 100% envisaged as target by Basel 3;
- NSFR calculated according to Basel 3 rules was 115%, much higher than the 100% envisaged as target by Basel 3.

**Continued support to the community**

- Support for the real economy remained steady: around Euro 1,400 million in new medium/long-term credit in 2018, of which roughly Euro 970 million disbursed to households and SMEs. Approximately 100 companies returned to performing status from non-performing positions in 2018.

## FINANCIAL PERFORMANCE

The income statement recorded net interest of Euro 165.4 million, up 8.9% compared to Euro 151.9 million in 2017 (down -4.9% if the effect of the impact of the reversal in time value on non-performing loans were included).

Dividends and profits (losses) on investments recorded a decline of -29.2% to Euro 3.1 million, compared to Euro 4.4 million in 2017.

Net fee and commission income amounted to Euro 89.1 million, up 1.0% compared to Euro 88.2 million in 2017. In detail, a 0.9% increase was recorded in fees and commissions from commercial banking activities and an increase of 2.6% in fees and commissions from management, brokerage and consulting services (assets under management, insurance products, securities placement), within which the component relating to brokerage and securities placement rose by 2.7% and that relating to insurance products increased by 7.7%.

Net profit (loss) from financial assets and liabilities designated at fair value was Euro -1.5 million, compared to Euro +14.5 million in 2017. The change is mainly to the removal of income from the disposal of financial assets designated at fair value through other comprehensive income, which stood at Euro 1.6 million in 2018 compared to Euro 13.3 million in 2017. The component relating to profit (loss) on trading came to Euro 2.8 million, up by +23.9% compared to Euro 2.3 million in 2017. The component relating to net profit (loss) from other assets and liabilities designated at fair value reached Euro -6.0 million, increasing from Euro -1.1 million in 2017.

Other net operating income amounted to Euro 19.3 million, down -9.7% compared to the previous year.

The aggregate value of other operating income was therefore Euro 106.9 million, down -13.8% compared to Euro 124.1 million in 2017.

Net operating income came to Euro 275.5 million, down by -1.8% compared to Euro 280.5 million in 2017.

Operating costs totalled Euro 182.9 million, up by +3.7% compared to Euro 176.4 million in 2017, due to the containment of personnel expenses (to Euro 98.3 million, down -1.4% compared to Euro 99.8 million in 2017) and the rise in administrative expenses which reached Euro 74.5 million (+9.1% compared to Euro 68.3 million in 2017).

Value adjustments to property, equipment and intangible assets amounted to Euro 10.1 million, up on the Euro 8.4 million of 2017 mainly as a result of non-recurring components relating to a number of properties purchased during the year.

Consequently, operating profit (loss) amounted to Euro 92.6 million, down by -11.0% compared to Euro 104.1 million in 2017. In 2018, the cost/income ratio was 66.4% compared to 65.6% in 2017.

Net adjustments to loans and other financial transactions amounted to Euro 38.9 million, down -29.1% on the Euro 54.9 million of 2017. Net adjustments to other assets were positive at Euro 0.1 million, a marked improvement on the negative Euro 7.4 million of 2017. Net allocations to provisions for risks and charges reached Euro 4.1 million, compared to Euro 2.7 million in 2017.

Net profit on disposal of investments in associates and companies subject to joint control and other investments totalled Euro 2.2 million, up compared to Euro 0.3 million in 2017.

Profit (loss) on continuing operations was Euro 52.4 million, compared to Euro 39.3 million in 2017 (+33.4%)

The net profit totalled Euro 34.3 million, after accounting for:

- income taxes for Euro 12.1 million;

- taxes and other charges relating to the banking system (after tax) for Euro 6.0 million, deriving from charges of Euro 3.5 million (Euro 4.9 million before tax) relating to resolution fund contributions and Euro 2.5 million (Euro 3.5 million before tax) relating to contributions to the deposit guarantee fund. In 2017, this item totalled Euro 4.7 million, deriving from the following contributions before tax: charges for Euro 2.2 million referring to the standard contribution to the resolution fund, charges for Euro 2.5 million relating to contributions to the deposit guarantee fund.

## DEVELOPMENTS IN THE MAIN BALANCE SHEET AGGREGATES

For the first time, assets exceeded Euro 10 billion, mainly due to the growth in loans to customers and financial investments.

As at 31 December 2018, loans to customers totalled Euro 7.3 billion, up by +4.5% compared to Euro 7.0 billion in 2017.

The financial assets of customers totalled Euro 11.1 billion, up by +3.5% compared to Euro 10.8 billion at the end of 2017. With regard to financial assets of customers, direct funding amounted to Euro 7.7 billion, up by +4.5% compared to 31 December 2017. Indirect funding amounted to Euro 3.4 billion, essentially unchanged compared to the end of 2017. Net of Volksbank shares held, indirect funding increased by +4.2% to Euro 2.9 billion, compared to Euro 2.8 billion at the end of 2017. In particular, the total for administered funding relating to third-party products was Euro 2.3 billion, up by +5.2% compared to Euro 2.2 billion as at 31 December 2017. Administered funding relating to the third-party securities component (excluding Volksbank shares) stood at Euro 564.3 million, up by +0.4% from 31 December 2017 (Euro 562.0 million).

Total non-performing loans (doubtful, unlikely to pay and past due) amount to Euro 370.8 million net of adjustments, down by -31.7% compared to Euro 542.5 million as at 31 December 2017. In this respect, net doubtful loans totalled Euro 181.3 million, down by -36.3% compared to Euro 284.7 million as at 31 December 2017, making up 2.5% of total loans (4.1% as at 31 December 2017), and with a degree of hedging of 55.5% (53.7% at the end of 2017). The decrease is due to the impact of disposals of non-performing loans carried out. Net unlikely to pay loans fell to Euro 183.3 million from Euro 248.5 million in December 2017, and net past due loans totalled Euro 6.1 million compared to Euro 9.3 million at the end of 2017.

The total gross non-performing loans was Euro 662.5 million, -31.0% since the start of the year, with a doubtful loans component of Euro 407.8 million (-33.7%). These amounts respectively represent 8.7% and 5.4% of total gross loans to customers.

The degrees of hedging were strengthened in all the main segments. As previously mentioned, the hedging rate for doubtful loans has reached 55.5%, for unlikely to pay loans it rose to 26.1% (from 25.7% at the end of 2017) and for non-performing loans increased to 44.0% (from 43.5% at the end of 2017).

Financial assets other than loans, valued at amortised cost, totalled Euro +1,212.2 million, up by +47.3% compared to Euro 823.0 million at the end of 2017. Financial assets designated at fair value through profit or loss amounted to Euro 242.2 million compared to Euro 11.5 million at the end of 2017.

Financial assets designated at fair value through other comprehensive income totalled Euro 829.1 million, down by -24.0% compared to Euro 1,091.0 million at the end of 2017.

Property and equipment and intangible assets totalled Euro 254.7 million, down -1.6% on the Euro 258.8 million recorded at the end of 2017. Tax assets amounted to Euro 174.7 million (+3.3%), whilst groups of assets held for sale totalled Euro 12.9 million and refer to properties.

**Own funds and capital requirements**

The capital requirements to be met overall, including Capital Guidance, in terms of the Common Equity Tier 1 Ratio, Tier 1 Ratio and Total Capital Ratio, respectively amount to 7.075%, 8.813% and 11.125% on the basis of transitional criteria in force for 2018, and respectively 7.7%, 9.438% and 11.75% for 2019. The regulatory aggregates, determined according to the standard Basel 3 approach, show values that remained much higher than the minimum prudential requirements:

- CET 1 Ratio “IFRS 9 phased-in” was estimated at 11.2% and “IFRS 9 fully phased” at 10.4%, up on the post-IFRS 9 values as at 31 December 2017 which were 11.9% and 10.9%, respectively;
- Tier 1 Ratio “IFRS 9 phased-in” was estimated at 11.2% and “IFRS 9 fully phased” at 10.4%, up on the post-IFRS 9 values as at 31 December 2017 which were 11.9% and 10.9%, respectively;
- Total Capital Ratio “IFRS 9 phased-in” was estimated at 13.2% and “IFRS 9 fully phased” at 12.4%, up on the post-IFRS 9 values as at 31 December 2017 which were 13.6% and 12.7%, respectively.

**Liquidity and leverage ratios**

The liquidity position at the end of 2018 showed the following ratios:

- as at 31 December 2018, readily available assets, including assets eligible for allocation to Central Banks received as collateral (excluding those given as collateral), amounted to Euro 1,033 million;
- ECB financing transactions to optimise the cost of funding and support business customer investments averaged Euro 1,008 million in 2018 (average Euro 952 million in 2017), 99.2% of which were TLTRO operations with four-year maturities;
- funding sources remained stable and well-diversified, with direct funding from banks and customers (including securities issued) with 78.0% referring to the retail component;
- medium-term and long-term funding for around Euro 2,478 million in 2018, of which over Euro 1,845 million relating to the wholesale component;
- LCR equal to 126%, much higher than the 100% envisaged as target by Basel 3;
- NSFR calculated according to Basel 3 rules was 115%, much higher than the 100% envisaged as target by Basel 3.

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As at 31 December 2018, the operating structure was made up of 172 bank branches and 1,327 people.

With a view to offering a more complete disclosure on the results achieved in 2018, attached are the reclassified income statement and balance sheet included in the report approved by the Board of Directors. Note that the independent auditors appointed to audit the separate financial statements have not yet completed their examination.

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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 accounts entries.

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## RECLASSIFIED BALANCE SHEET

| **Assets**<br>*(amounts in thousands of Euro)* | **31.12.2018** | **31.12.2017 (*)** |
|---|---|---|
| Loans to banks | 48,929 | 109,746 |
| Loans to customers | 7,275,467 | 6,961,712 |
| *- at amortised cost* | *7,227,655* | *6,961,712* |
| *- at fair value through profit or loss* | *47,812* | - |
| *- at fair value through other comprehensive income* | - | - |
| Financial assets other than loans, valued at amortised cost | 1,212,245 | 822,972 |
| Financial assets designated at fair value through profit or loss | 242,210 | 11,531 |
| Financial assets designated at fair value through other comprehensive income | 829,144 | 1,090,652 |
| Investments | 5,745 | 5,793 |
| Property and equipment and intangible assets | 254,699 | 258,791 |
| Tax assets | 174,705 | 169,106 |
| Non-current assets and groups of assets held for sale | 12,923 | - |
| Other assets | 219,495 | 207,632 |
| **Total assets** | **10,275,562** | **9,637,936** |

| **Liabilities and shareholders' equity**<br>*(amounts in thousands of Euro)* | **31.12.2018** | **31.12.2017 (*)** |
|---|---|---|
| Due to banks at amortised cost | 1,418,187 | 1,150,659 |
| Financial liabilities to customers at amortised cost | 7,683,420 | 7,350,397 |
| *- due to customers* | *6,985,200* | *6,396,871* |
| *- debt securities issued* | *698,220* | *953,526* |
| Financial liabilities held for trading | 1,429 | 2,030 |
| Financial liabilities designated at fair value | - | 1,050 |
| *- due to customers* | - | - |
| *- debt securities issued* | - | *1,050* |
| *- other financial liabilities designated at fair value* | - | - |
| Tax liabilities | 31,254 | 33,832 |
| Liabilities associated with assets held for sale | - | - |
| Provisions for risks and charges | *20,729* | 17,923 |
| Other liabilities | *285,340* | 208,675 |
| Shareholders' equity: | 835,203 | 873,369 |
| *- Share capital* | *183,440* | *180,886* |
| *- Profit reserves* | *632,893* | *667,524* |
| *- Valuation reserves* | *(15,387)* | *682* |
| *- Profit (loss) for the period* | *34,257* | *24,277* |
| **Total liabilities and shareholders' equity** | **10,275,562** | **9,637,936** |

(*) The comparative data as at 31 December 2017, determined according to IAS 39, were restated to the new accounting items envisaged by the 5th update to Bank of Italy Circular no. 262, without recalculating them according to the provisions of IFRS 9, in force from 1 January 2018. Therefore, the comparative data is not fully comparable with the data relating to 2018.

# RECLASSIFIED INCOME STATEMENT

| RECLASSIFIED INCOME STATEMENT ITEMS | 31.12.2018 | 31.12.2017 (*) |
|---|---|---|
| *(amounts in thousands of Euro)* | | |
| Net interest | 165,392,239 | 151,935,670 |
| Dividends and profits (losses) on investments carried at equity | 3,146,695 | 4,442,215 |
| **Financial margin** | **168,538,934** | **156,377,885** |
| Net fee and commission income | 89,111,956 | 88,205,894 |
| Net profit (loss) on financial assets and liabilities designated at fair value | (1,544,061) | 14,459,545 |
| Other operating income/expenses | 19,345,637 | 21,420,899 |
| **Other operating income** | **106,913,532** | **124,086,338** |
| **Net operating income** | **275,452,466** | **280,464,223** |
| Personnel expenses | (98,330,910) | (99,771,207) |
| Administrative expenses | (74,457,899) | (68,263,026) |
| Net adjustments to property and equipment and intangible assets | (10,098,527) | (8,379,058) |
| **Operating costs** | **(182,887,336)** | **(176,413,291)** |
| **Operating profit (loss)** | **92,565,131** | **104,050,932** |
| Net adjustments to loans and other financial transactions | (38,926,362) | (54,918,350) |
| Net adjustments to other assets | 735,802 | (7,401,525) |
| Net provisions for risks and charges | (4,132,648) | (2,741,226) |
| Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments | 2,176,467 | 305,619 |
| **Profit (loss) on continuing operations** | **52,418,389** | **39,295,450** |
| Period-end income taxes for continuing operations | (12,111,841) | (10,304,206) |
| Taxes and charges relating to the banking system net of taxes | (6,049,829) | (4,713,764) |
| **Profit (loss) for the period** | **34,256,720** | **24,277,480** |

(*) The comparative data as at 31 December 2017, determined according to IAS 39, were restated to the new accounting items envisaged by the 5th update to Bank of Italy Circular no. 262, without recalculating them according to the provisions of IFRS 9, in force from 1 January 2018. Therefore, the comparative data is not fully comparable with the data relating to 2018.