Volksbank

Press Release *price sensitive*

Bolzano, 7 August 2020

Volksbank closes first half of 2020 in profit with key financial indicators on the up

Volksbank has closed the first half of 2020 with a net profit of Euro 6.0 million. As a financial partner to households and enterprises, the Bank has played an active role in the Covid-19 crisis, with over Euro 2 billion in loans supported by moratoria. In asset terms, the Bank has strengthened further: its CET1 ratio rose to a sound 13.3%, an increase of over 50 basis points. The Board of Directors has positively welcomed and approved the half-year financial statements, which demonstrate the Bank's soundness also in a difficult situation.

In the first half of 2020 Volksbank has confirmed its sustainable profitability profile and balance sheet strength, in spite of the impact of the Covid-19 health crisis, thanks to a strongly rooted business model and the high quality of its portfolio. The Bank has demonstrated its ability to ensure continuous support to households and enterprises and to guarantee full operativity also thanks to the adoption of smart working solutions, which have allowed an extensive operational flexibility, for the benefit of both customers and employees.

The Bank has confirmed its role of facilitator, able to support the growth of the local economy, thanks to initiatives aimed at mitigating the impact of the Covid-19 pandemic, operating in conditions of full safety for customers and employees:

- proactive and anticipatory action, with the activation of the first voluntary moratorium on 17 March, followed by the moratorium pursuant to Italian liquidity decree no. 23 of 8 April 2020, in addition to the interventions relative to the Italian Banking Association and other initiatives, including the agreement with the autonomous provinces of Trento and Bolzano;
- support to all households and enterprises to mitigate the impact of the Covid-19 pandemic. As at 30 June, more than 13,000 moratorium periods had been granted, linked to legislation and non, which have affected loans for a gross value of more than Euro 2 billion;
- more than 2,400 new loans have been issued for a total amount of around Euro 85 million, which benefit from public guarantees.

The net profit for the first half year was of Euro 6.0 million, in spite of greater Covid-19 provisions on the performing loans portfolio, which include the forward looking component of Covid-19 scenarios.

Capitalisation was further strengthened and comfortably higher than the supervisory authority's requirements and expectations, with CET 1 Ratio of 13.3% (phased-in) and 12.6% (fully-phased), and Total Capital Ratio of 15.6% and 14.9% respectively.

Brokering margins was up by 3.0% compared to the first half of 2019, adjustments for credit risk on lending activities down to Euro 30.5 million, compared to Euro 56.9 million for the first half of 2019.

The annualised risk cost was 82 basis points, compared to 108 in the first six months of 2019.

Administrative expenses, net of charges and taxes relative to the banking system, amounted to Euro 79.6 million, down by 3.9% compared to the Euro 82.7 million for the first six months of 2019. Cost-to-income ratio was 64.4%, compared to 65.3% for the first half of 2019. Charges and taxes to the banking system, of Euro 8.8 million, were up by 28.8% compared to the previous 12 months.

Direct funding from customers were up by 2.8% to Euro 7,808.3 million, compared to Euro 7,592.1 million at the end of 2019. Indirect funding from customers amounted to Euro 3,732.8 million, down by 1.1% compared to Euro 3,773.9 million at the end of 2019.

Loans to customers were essentially unchanged at Euro 7,224.7 million, down by 0.3% compared to Euro 7,243.4 million at the end of 2019. In particular, in spite of the particularly difficult environment, commercial loans, made up of current accounts, advances, loans and mortgages, amounted to Euro 6,863.8 million compared to Euro 6,870.4 million at the end of 2019.

The strengthening of the quality of credit continued, with hedging of performing loans at 0.85%, up compared to 0.83% in December 2019. Hedging of non-performing loans was 54.5%, up compared to 53.2% in December 2019. The incidence of gross non-performing loans stood at 7.4%, without taking account of the securitisation of non-performing loans planned for the second half-year. Including this transfer, the pro-forma ratio at 30 June would have decreased to around 6.6%.

The Chairman, Lukas Ladurner, stated: *“Our results demonstrate how the Bank is responding well to the economic scenario we are facing, presenting profit for two quarters. In line with the work of the Board of Directors, which has been in post for three months, Volksbank has strengthened its position to face with greater resilience the uncertainty deriving from the heath emergency. We are also working to improve the effectiveness of the Bank in operating as the financial partner to households and enterprises on the territory, so as to ensure long term sustainable results, as we will illustrate in the presentation of our Business plan in the autumn. I would like to express my most sincere thanks to our colleagues of the Board of Directors and our employees for their exceptional commitment and flexibility at this time”.*

The General Manager, Alberto Naef, declared: *“At Volksbank we have played an active role in helping our customers to cope with the impact of Covid-19: The bank has granted moratorium periods on more than Euro 2 billion's worth of loans, with more than Euro 11 billion of total assets. We have also strengthened our liquidity, with free debt securities usable as collateral of Euro 1.5 billion, and our capital, with a CET1 ratio of 13.3% and hedging of impaired loans at 54.5%, so as to make the bank better able to withstand the economic shocks that we might have to face”.*

Today, the Board of Directors of Volksbank approved the Half-yearly financial report as at 30 June 2020.

Results of operations as at 30 June 2020

Net interest amounted to Euro 85.1 million, down by 6.4% compared to Euro 90.9 million in the first half of 2019. In particular, the customer margin was of Euro 72.3 million, the component relative to the bank-owned portfolio was of Euro 12.8 million.

Net commissions came to Euro 41.3 million, down by 9.4% compared to Euro 45.7 million in the first half of 2019. In detail, commissions relative to collection and payment services amounted to Euro 4.5 million, compared to Euro 5.1 million in the first half of 2019. Commissions relative to management, brokering and consulting services amounted to Euro 12.0 million, compared to Euro 12.6 million in the first half of 2019. The net component relative to loans and credit facilities amounted to Euro 20.2 million, compared to Euro 21.6 million for the same period in the previous year.

Dividends and similar income, essentially deriving from UCIT investments, amounted to Euro 0.4 million, down compared to the Euro 2.1 million for the first six months of 2019. The net income from trading activities, relative to financial instruments held for trading designated at fair value, amounted to Euro 1.4 million, down compared to Euro 1.8 million in the first half of 2019.

The net result from disposal of financial assets measured at amortised cost amounted to Euro 4.9 million, up by 71.0% compared to Euro 2.9 million in the first six months of 2019. The net result of financial assets designated at fair value recognised in an equity reserve (“FVOCI”) amounted to Euro 2.4 million and was entirely attributable to debt securities.

The net loss of financial assets and liabilities mandatorily designated at fair value with recognition in the income statement amounted to Euro -4.7 million, of which Euro -1.0 million entirely attributable to loans to customers and Euro -3.7 million to financial instruments other than loans.

Due to the combined effect of these dynamics, the brokering margin increased by 3.0% to Euro 130.9 million, compared to Euro 127.2 million in the first half of 2019.

Net adjustments for credit risk amounted to Euro -30.5 million, compared to Euro -56.9 million for the same period in 2019. Of these, Euro -29.7 million refer to loans to customers and Euro -0.8 million to credit risks on debt securities. In the first half of 2019 the adjustments on loans to customers amounted to Euro -57.8 million, while debt securities showed a positive result of Euro 0.9 million.

In the operating expenses segment, personnel expenses decreased by 2.0%, equal to Euro -46.0 million, compared to Euro -46.9 million in the first half of 2019.

Other administrative expenses, net of taxes and charges relating to the banking system, stood at Euro -33.6 million, down by -4.7% compared to Euro 35.3 million the first half of 2019.

Taxes and charges relating to the banking system totalled Euro -8.8 million, up by 28.8% compared to Euro -6.9 million in the first half of 2019.

Other net operating income amounted to Euro 7.6 million, down -19.1% compared to Euro 9.4 million in the first half of 2019.

Net allocations to provisions for risks and charges amounted to Euro -0.9 million, compared to Euro 1.2 million in the first half of 2019.

Net adjustments to property and equipment and intangible assets amounted to Euro 9.6 million, up by Euro 2.9 million compared to Euro 6.7 million in the first half of 2019.

Overall operating expenses amounted to Euro -91.3 million, up by +7.3% compared to Euro -85.1 million in the first half of 2019.

In the first half of 2020, the cost/income ratio was 64.4% compared to 65.3% in the same period of 2019.

The gross result from current operations amounted to Euro +8.9 million. The net profit amounted to Euro +6.0 million, after accounting for income taxes of Euro -2.8 million.

Balance sheet as at 30 June 2020

As at 30 June 2020, direct funding amounted to Euro 7,808.3 million, up +2.8% compared to Euro 7,592.1 million as at 31 December 2019. Within this comparison, there was growth of +5.8% in current accounts and on demand deposits of the sales network (Euro 6,707.3 million against Euro 6,342.0 million at the end of 2019). In addition, the downward trend continued for bonds and certificates of deposit issued amounting to Euro 530.0 million (-22.4%, and Euro -153.1 million) in line with the policy for the progressive reduction in the cost of funding thanks to the decline in costlier forms of funding. Repurchase agreements and other forms of funding were essentially unchanged at Euro 571.0 million (they were Euro 566.9 million at the end of 2019).

Indirect funding fell by -1.1% to Euro 3,732.8 million, compared to Euro 3,773.9 million at the end of 2019.

Deposits administered for third party products amounted to a total of Euro 2,609.4 million, down 1.2% compared to Euro 2,641.2 million at the end of 2019. Penalised by the health emergency, the mutual funds segment amounted to Euro 1,783.2 million, down 2.5% compared to Euro 1,829.1 million at the end of 2019), offset by the improvement in the social security segment which recorded a growth of 8.5% to Euro 107.1 million and the insurance segment, with a growth of 0.8% to Euro 717.5 million compared to the end of 2019.

Third party assets under management rose by 12.2% to Euro 656.4 million, compared to Euro 585.1 million at the end of 2019.

Financial assets other than loans to customers and banks totalled Euro 2,722.6 million and were up by 11.0% compared to Euro 2,451.8 million as at 31 December 2019. This aggregate primarily included government securities for Euro 2,360.8 million, debt securities for Euro 182.7 million and capital securities for Euro 63.8 million. As a result of the introduction of IFRS 9, financial assets also included loans to customers which must necessarily be designated at fair value (totalling Euro 36.2 million).

The total increase compared to the end of 2019 was attributable to the growth in debt securities classified in the "hold to collect" (Euro 257.6 million), "hold to collect & sell" (Euro +22.9 million) portfolios.

Net loans to customers, inclusive of non-performing loans, totalled Euro 7,224.7 million. Net performing loans to customers were unchanged at Euro 6,880.0 million, compared to Euro 6,878.7 million at the end of 2019. Total non-performing loans (doubtful, unlikely to pay and past due) amounted to Euro 249.4 million net of adjustments, down by -3.9% compared to Euro 259.6 million as at 31 December 2019. In particular, doubtful loans totalled Euro 129.2 million, down by 9.6% compared to Euro 142.8 million as at 31 December 2019, with a degree of hedging of 64.0% (61.3% at the end of 2019). Net unlikely to pay loans amounted to Euro 111.7 million, up 0.8% compared to Euro 110.7 million as at December 2019. Past due loans amounted to Euro 8.6 million, compared to Euro 6.0 million at the end of 2019.

Gross non-performing loans amounted to Euro 553.1 million, down by 0.3% on Euro 555.0 million at the end of 2019. In particular, gross doubtful loans were Euro 358.7 million compared to Euro 369.2 million at the end of 2019. Gross unlikely to pay loans were Euro 183.1 million compared to Euro 178.1 million at the end of 2019. Gross past-due loans were Euro 11.3 million compared to Euro 7.8 million at the end of 2019.

The degree of hedging on the entire aggregate of non-performing loans totalled 54.5%, up compared to 53.2% as at 31 December 2019.

The coverage ratio of performing exposures was 0.85%, compared to 0.83% as at 31 December 2019.

As at 30 June 2020, Volksbank's operating structure was made up of 160 bank branches and 1,303 employees.

<u>Prudential ratios</u>

Equity ratios appraisal as at 30 June 2020 resulted equal to:

- Common Equity Tier 1 ratio and Tier 1 Ratio stood at 13.3%, up compared to 12.7% as at 31 December 2019;
- Total Capital Ratio amounted to 15.6%, up compared to 14.9% as at 31 December 2019.

These ratios benefited from the exercise of the option for the full application of the transitional provisions introduced by the new article 473 bis of EU Regulation no. 575/2013, which defers over time the impact on own funds deriving from the application of the new impairment model introduced by IFRS 9, as amended by Regulation (EU) no. 2020/873 of 24 June 2020 in relation to some adjustments in response to the COVID-19 pandemic, in order to attenuate the potential impact deriving from the sudden increase in provisions for expected losses on loans and advances recognised on non-impaired financial assets.

Corresponding fully-phased ratios, calculated without the application of the above mentioned option were comfortably above the limits required by the supervisory authority and amounted to:

- Common Equity Tier 1 ratio and Tier 1 Ratio stood at 12.6%, up compared to 11.9% as at 31 December 2019;
- Total Capital Ratio amounted to 14.9%, up compared to 14.1% as at 31 December 2019.

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In addition to the information presented, the Balance Sheet and Income Statement as at 30 June 2020 and compared with the prior period 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 accounts entries.

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

BALANCE SHEET

Asset items *(amounts in Euro)*		**30.06.2020**	**31.12.2019**
10.	Cash and cash equivalents	78,129,696	92,607,476
20.	Financial assets designated at fair value through profit or loss	139,614,466	149,221,264
	a) financial assets held for trading	*470,267*	*7,647,532*
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily designated at fair value	*139,144,199*	*141,573,732*
30.	Financial assets designated at fair value through other comprehensive income	652,175,745	629,297,888
40.	Financial assets valued at amortised cost	9,682,076,431	9,149,466,228
	a) due from banks	*526,567,095*	*232,763,327*
	b) loans and advances to customers	*9,155,509,336*	*8,916,702,901*
50.	Hedges	-	-
60.	Value adjustments of macro-hedged financial assets (+/-)	-	-
70.	Investments	5,263,522	5,407,078
80.	Property and equipment	150,940,469	148,952,347
90.	Intangible assets	17,558,471	18,466,618
	of which:		
	- goodwill	-	-
100.	Tax assets	171,074,987	174,962,755
	a) current	*60,124,108*	*56,010,727*
	b) prepaid	*110,950,879*	*118,952,028*
110.	Non-current assets and groups of assets held for sale	14,919,655	17,322,398
120.	Other assets	128,728,161	176,059,421
Total assets		**11,040,481,603**	**10,561,763,473**

Liabilities *(amounts in Euro)*		**30.06.2020**	**31.12.2019**
10.	Financial liabilities valued at amortised cost	9,924,655,976	9,486,467,227
	a) due to banks	*1,599,018,363*	*1,247,847,818*
	b) due to customers	*7,661,057,364*	*7,422,665,066*
	c) debt securities issued	*664,580,249*	*815,954,343*
20.	Financial liabilities held for trading	1,180,794	1,484,599
30.	Financial liabilities designated at fair value (IFRS 7 paragraph 8 letter e))	-	-
40.	Hedges	-	-
50.	Value adjustments of macro-hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	24,630,691	23,914,404
	a) current	*6,621,806*	*4,666,138*
	b) deferred	*18,008,885*	*19,248,266*
70.	Liabilities associated with assets held for sale	-	-
80.	Other liabilities	303,932,926	264,441,238
90.	Employee termination indemnities	17,455,288	18,618,522
100.	Provisions for risks and charges	17,789,042	17,479,916
	a) commitments and guarantees issued	*4,715,898*	*5,052,217*
	b) pensions and similar commitments	-	-
	c) other provisions for risks and charges	*13,073,144*	*12,427,699*
110.	Valuation reserves	(3,656,127)	(179,194)
120.	Redeemable shares	-	-
130.	Capital instruments	-	-
140.	Reserves	267,883,424	267,883,116
150.	Share premium reserve	298,786,747	383,158,533
160.	- Share capital	201,993,752	201,993,752
170.	Treasury shares (-)	(20,218,988)	(19,126,854)
180.	Profit (loss) for the period (+/-)	6,048,078	(84,371,786)
Total liabilities and shareholders' equity		**11,040,481,603**	**10,561,763,473**

INCOME STATEMENT

INCOME STATEMENT		**30.06.2020**	**30.06.2019**
(amounts in Euro)			
10.	Interest receivable and similar income	97,784,658	105,255,417
	of which: interest income calculated with the effective interest method	*95,110,016*	*99,228,361*
20.	Interest expenses and similar charges	(12,720,954)	(14,397,113)
30.	**Interest margin**	**85,063,704**	**90,858,304**
40.	Commission income	47,365,412	50,905,531
50.	Commissions expenses	(6,018,012)	(5,254,302)
60.	**Net fee and commission income**	**41,347,400**	**45,651,229**
70.	Dividends and similar income	403,564	2,097,899
80.	Net result of trading income	1,415,895	1,807,640
90.	Net result of hedge activities	-	-
100.	Profits (losses) on disposal or repurchases of:	7,365,775	4,312,474
	a) financial assets valued at amortised cost	*4,928,083*	*2,882,715*
	b) financial assets designated at fair value through other comprehensive income	*2,374,719*	*1,323,258*
	c) financial liabilities	*62,973*	*106,501*
110.	Net result of other financial assets and liabilities designated at fair value through profit and loss account	(4,664,679)	(17,575,401)
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily designated at fair value	*(4,664,679)*	*(17,575,401)*
120.	**Brokering margin**	**130,931,659**	**127,152,145**
130.	Net value adjustments/write-backs for risk credit of:	(30,520,841)	(56,896,135)
	a) financial assets valued at amortised cost	*(30,535,848)*	*(57,338,406)*
	b) financial assets designated at fair value through other comprehensive income	*15,007*	*442,271*
140.	Profit/loss from contract amendments without elimination	(52,283)	-
150.	**Net result of financial management**	**100,358,535**	**70,256,010**
160.	Administrative expenses:	(88,433,592)	(89,078,623)
	a) personnel expenses	*(45,962,977)*	*(46,924,401)*
	b) other administrative expenses	*(42,470,615)*	*(42,154,222)*
170.	Net provisions for risks and charges:	(937,764)	1,213,591
	a) for credit risk relative to commitments and guarantees issued	*336,319*	*715,226*
	b) other net provisions	*(1,274,083)*	*498,365*
180.	Net value adjustments/write-backs to property and equipment	(8,632,246)	(5,803,532)
190.	Net value adjustments/write-backs to intangible assets	(920,701)	(853,043)
200.	Other operating income/expenses	7,588,355	9,384,475
210.	**Operating costs**	**(91,335,948)**	**(85,137,132)**
220.	Profits (losses) on investments in associates and companies subject to joint control;	(174,115)	(267,800)
230.	Net result of the fair value measurement of property and equipment and intangible assets	-	-
240.	Net adjustments to goodwill	-	(99,601,776)
250.	Profits (losses) on disposal of investments	16,682	32,898
260.	**Profit (Loss) on current operations before taxes**	**8,865,154**	**(114,717,800)**
270.	Period-end income taxes for continuing operations	(2,817,076)	13,180,969
280.	**Profit (Loss) on current operations after taxes**	**6,048,078**	**(101,536,831)**
290.	Profit (Loss) on discontinued operations after taxes	-	-
300.	**Profit (loss) for the period**	**6,048,078**	**(101,536,831)**

NOTES

This press release and Half-year financial report as at 30 June 2020 are available to the public through the authorised delivery and storage mechanism eMarket (www.emarketstorage.com) and on the company's website www.volksbank.it / www.bancapopolare.it, "Investor Relations" section.

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