Press Release

Bolzano, 7.2.2020

VOLKSBANK: YEAR END RESULTS AS AT 31 DECEMBER 2019

Solid capital base: capital ratios up significantly and well above minimums required:

- Core Tier 1 ratio 12.8% up from 11.2% in 2018;
- Total Capital Ratio at 15.0% up from 13.3% in 2018.

Sustainable profitability, with net operating income:

- Euro 293.9 million, +4.5% compared to Euro 281.2 million in 2018 despite an unfavourable macroeconomic scenario;
- in the second half at Euro 146.7 million, fully in line with the first half.

Operating costs:

- down to Euro 180.7 million in the year, -1.2% compared to Euro 182.9 million in 2018;
- in the second half at Euro 91.4 million, +2.3% on the Euro 89.4 million of the first half.

Operating profit (loss):

- up to Euro 113.1 million, +15.0% compared to Euro 98.4 million in 2018.

Profit (loss) before tax on continuing operations:

- down in the year to Euro 13.7 million, mainly due to prudential loan loss provisions, -73.8% compared to Euro 52.4 million in 2018;
- in the second half up to Euro 22.5 million, compared to Euro -8.7 million in the first half.

Goodwill impairment:

- full accounting write-down of Euro 99.6 million, no impact on solidity and capital ratios

Net profit (loss) after goodwill impairment:

- second half profit at Euro +17.2 million compared to Euro -101.5 million in the first half;
- net loss for the year of Euro -84.4 million, compared to Euro +34.3 million in 2018.

Bolzano, 7 February 2020. The Board of Directors of Volksbank met today and approved the draft financial statements as at 31 December 2019.

The Chairman, Otmar Michaeler, said this about Volksbank's 2019 results: "The Bank closed the year with very solid key ratios . Our capitalisation levels have gone up significantly and well above regulatory minimum, the strengthening of credit risk provisions was higher than budgeted, and the increases in revenue and operating profit (loss) confirmed the Bank's capacity to generate operating results and positioning ourselves as a point of reference in the community in supporting households and businesses".

CEO Johannes Schneebacher reported that "the asset quality strengthening was achieved by increasing loan loss provisions and coverage ratios on UTP exposures in the NPL portfolio reflecting a more prudentvaluation approach in line with European guidelines. We have reachedNPL ratios and coverage rates in line with some of the best banks in the system".

"The complete write-down of goodwill (Euro 99.6 million), has purely accounting impacts only, with no impact on real profitability and on the capital ratios. In fact, both Core Tier 1 and Total Capital ratios are significantly up year on year. Net profit in the second half was Euro 17 million, confirming the earnings power of our core business consolidating Volksbank's position as leading operator in the North-East region of Italy."

Strong second half profit at Euro +17.2 million, compared to Euro -101.5 million in the first half, mainly the effect of goodwill impairment and prudential adjustments to loans.

Capital solidity

- the capital ratios were estimated by applying the transitional criteria in force for 2019, confirming the sound equity position: the CET 1 Ratio rose to 12.8% compared to 11.2% at the end of 2018, and the Total Capital Ratio increased to 15.1% from 13.3% at the end of 2018, both much higher than minimum requirements.

Operating profit growth of +15.0% for the year compared to 2018, mainly due to:

- increase in the financial margin, with interest margin up to Euro 174.9 million (+5.8%) compared to Euro 165.4 million in 2018;
- decrease in operating costs to Euro 180.7 million (-1.2%);
- further improvement in efficiency, confirmed by the cost/income ratio down to 61.5% (65.0% at the end of 2018).

Strengthening of asset quality, particularly through:

- loan loss provisions for a total of around Euro 97.5 million (approximately Euro 35.9 million to strengthen UTP coverage), against:
  - solid reserve on performing loans of Euro 57.8 million, equal to 83 cents and more than 33 cents higher than the system average ([1]);
  - coverage of non-performing loans increased to 53.2% compared to last year's 44.0%.

Asset Quality developments in detail:

- proactive management of the non-performing loans portfolio:
  - decrease of -16.2% in the gross stock of non-performing loans to Euro 555.0 million, compared to Euro 662.5 million as at 31 December 2018;
  - net of adjustments, the NPL stock decreased by -30.0% compared to the end of 2018, due to significant credit risk control recorded during the year;
  - the flow of non-performing loans reached Euro 163.4 million, equal to 2.2% of total gross loans recognised;
  - impact of gross non-performing loans on gross loans (NPL ratio) at 7.3%, down significantly on the 8.7% of 2018 (gross doubtful loans at 4.9% compared to 5.4% in 2018, gross unlikely to pay at 2.3% down from 3.3% in 2018);
  - decrease in NPL stock of -16.2% since the end of 2018 and by 42.2% from the end of 2017, achieving 47.4% of the reduction plan envisaged for the three-year period 2020-2022 in around 12 months.
- Around 180 companies and 60 individuals/sole proprietorships returning to performing status from impaired loan positions in 2019.
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The business model focused on customer relations ensures growth in the main core aggregates:

- net performing loans to customers rose by 1.61% YoY to Euro 6,878.7 million, compared to Euro 6,769.7 million at the end of 2018;
- direct funding from customers was up by +9.2% YoY to Euro 7,592.1 million (deposits and current accounts +5.7%);
- indirect funding, net of Bank shares, was up by +11.6% to Euro 3,226.3 million (Euro 2,892.2 million at the end of 2018);
- assets under management were up by Euro 981.5 million to Euro 18.6 billion, compared to Euro 17.6 billion at the end of 2018;
- balanced growth of funding and lending components: gross loans to customers/direct funding from retail customers at 110.3%.

([1]) see Bank of Italy, Financial Stability Report, Number 2/2019, November, Credit quality: amounts and shares of non-performing loans and coverage ratios at 30 June 2019.

Extremely prudent impairment testing criteria adopted in the 2019 financial statements:

- given the interest rate environment and respective forecasts, **goodwill impairment** was already tested as of 30 June, with total adjustments to goodwill of a significant amount (Euro 99.6 million, equal to 100% of the total) against mainly "on paper" transactions (around 60%) which for the Bank only affected the accounting records and had **no impact on cash flow, liquidity, capital strength and Core Tier 1 and Total Capital ratios and no effect on future profitability, as confirmed by the net profit of Euro 17.2 million in the second half.**

Solid liquidity and funding position:

- LCR over 170%, much higher than the 100% envisaged as target by Basel 3;
- NSFR calculated according to Basel 3 rules was well over 110%, much higher than the 100% envisaged as target by Basel 3.

FINANCIAL PERFORMANCE

The income statement recorded net interest of Euro 174.9 million, up 5.8% compared to Euro 165.4 million in 2018. As interest rates were kept at an all-time low for the entire year, the result was affected by lower interest on impaired assets due to proactive NPL management, and the disposal of doubtful loans in particular.

The contribution to the interest margin of operations with customers amounted to Euro 151.6 million. The net interest on financial assets reached Euro 25.0 million. The net interbank interest recorded a balance of Euro -1.7 million, benefiting from limited charges on interbank funding.

Net fee and commission income amounted to Euro 89.5 million, essentially unchanged compared to Euro 89.1 million in 2018. In detail, a 3.3% decrease was recorded in fees and commissions from commercial banking activities and an increase of 11.2% in fees and commissions from brokerage and consulting services (insurance products, securities placement), within which the component relating to brokerage and securities placement rose by 7.6% and that relating to insurance products increased by 17.9%.

Net profit (loss) from financial assets and liabilities designated at fair value was Euro 7.1 million, compared to Euro 4.2 million in 2018. For 2019, the contribution of financial assets designated at fair value through other comprehensive income stood at Euro 7.3 million compared to Euro 1.6 million in 2018. The component relating to profit (loss) on trading came to Euro +4.0 million, up by +40.6% compared to Euro 2.8 million in 2018. The component relating to net profit (loss) from other assets and liabilities designated at fair value reached Euro -4.2 million, compared to Euro -1.2 million in 2018.

Other net operating income amounted to Euro 19.9 million, essentially unchanged compared to Euro 19.3 million in the previous year (+3.0%).

The aggregate value of other operating income was therefore Euro 116.5 million, up +3.4% compared to Euro 112.7 million in 2018.

Net operating income came to Euro 293.9 million, up by +4.5% compared to Euro 281.2 million in 2018.

Operating costs totalled Euro 180.7 million, down by -1.2% compared to Euro 182.9 million in 2018, due to the containment of personnel expenses (to Euro 94.6 million, down 3.8% compared to Euro 98.3 million in 2018) and the rise in administrative expenses which reached Euro 72.7 million (+3.3% compared to Euro 70.4 million in 2018). Regarding the latter, an effect of Euro 4.4 million was recorded, deriving from the adoption of IFRS 16, which led to the recognition of charges relating to leased properties under “Net adjustments to property and equipment” that were previously recognised as “Other administrative expenses”.

Net adjustments to property and equipment and intangible assets stood at Euro 13.5 million, down with respect to Euro 14.2 million in 2018.

Consequently, operating profit (loss) amounted to Euro 113.1 million, up by +15.0% compared to Euro 98.4 million in 2018. In 2019, the cost/income ratio was 61.5% compared to 65.0% in 2018.

Net adjustments to loans and other financial transactions amounted to Euro 97.5 million, compared to the Euro 43.8 million of 2018. Net adjustments to other assets were positive at Euro 4.0 million, up on the Euro 0.7 million of 2018. Net allocations to provisions for risks and charges reached Euro 7.2 million, up compared to Euro 5.1 million in 2018.

Net profit on disposal of investments in associates and companies subject to joint control and other investments totalled Euro 1.3 million, down compared to Euro 2.2 million in 2018.

Profit (loss) on continuing operations was Euro 13.7 million, compared to Euro 52.4 million in 2018.

Taxes and charges relating to the banking system net of taxes amounted to Euro 6.4 million, up +5.9% compared to the Euro 6.1 million of 2018. In particular, these derive from charges of Euro 3.4 million (Euro 4.6 million before tax) relating to resolution fund contributions and Euro 3.1 million (Euro 4.2 million before tax) relating to contributions to the deposit guarantee fund.

In 2018, the contribution to the resolution fund totalled Euro 4.8 million (Euro 3.5 million after tax), whilst contributions to the deposit guarantee fund amounted to Euro 3.4 million (Euro 2.5 million after tax).

The net profit for the year before the adjustments to goodwill totalled Euro 3.0 million. In the second half, net profit totalled Euro 17.1 million.

The adjustments to goodwill, net of taxes, amounted to Euro 87.4 million.

The net loss after the impairment of goodwill totalled Euro -84.4 million.

DEVELOPMENTS IN THE MAIN BALANCE SHEET AGGREGATES

As at 31 December 2019, loans to customers totalled Euro 7.3 billion, essentially unchanged compared to 2018.

The financial assets of customers totalled Euro 10.7 billion, up by +10.9% compared to Euro 9.7 billion at the end of 2018. With regard to financial assets of customers, direct bank funding amounted to Euro 6.9 billion, up by +11.7% compared to Euro +6.2 billion as at 31 December 2018. Indirect funding amounted to Euro 3.8 billion, up by +9.4% compared to the end of 2018. Net of Volksbank shares held, indirect funding increased by +11.6% to Euro 3.2 billion, compared to Euro 2.9 billion at the end of 2018.

In particular, the total for administered funding relating to third-party products was Euro 2.6 billion, up by +13.5% compared to Euro 2.3 billion as at 31 December 2018. Administered funding relating to the third-party securities component (excluding

Volksbank shares) stood at Euro 585.1 million, up by +3.7% from Euro 564.3 million as at 31 December 2018.

Total non-performing loans amounted to Euro 259.6 million net of adjustments, down -30.0% compared to Euro 370.8 million as at 31 December 2018. In this respect, net doubtful loans totalled Euro 142.8 million, down by 21.2% compared to Euro 181.3 million as at 31 December 2018, making up 2.0% of total net loans (2.5% as at 31 December 2018), and with a degree of hedging of 61.3% (55.5% at the end of 2018). The decrease is due to the impact of disposals of non-performing loans carried out. Net unlikely to pay loans fell to Euro 110.8 million from Euro 183.3 million in December 2018, and net past due loans totalled Euro 6.0 million compared to Euro 6.1 million at the end of 2018.

The total gross non-performing loans was Euro 555.0 million, -16.2% since the start of the year, with a doubtful loans component of Euro 369.2 million (-9.5%). These amounts respectively represent 7.3% (8.7% at the end of 2018) and 4.9% (5.4% at the end of 2018) 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 61.3% (from 55.5% at the end of 2018), for unlikely to pay loans it rose to 37.8% (from 26.1% at the end of 2018) and for non-performing loans increased to 53.2% (from 44.0% at the end of 2018).

Financial assets other than loans, measured at amortised cost, totalled Euro +1.7 billion, up by +38.0% compared to Euro 1.2 billion at the end of 2018. Financial assets designated at fair value through profit or loss amounted to Euro 112.6 million compared to Euro 242.2 million at the end of 2018.

Financial assets designated at fair value through other comprehensive income totalled Euro 629.2 million, down by 24.1% compared to Euro 829.1 million at the end of 2018.

Property and equipment and intangible assets totalled Euro 151.4 million, down 35.4% on the Euro 234.5 million recorded at the end of 2018. Tax assets remained essentially unchanged at Euro 175.0 million, whilst groups of assets held for sale totalled Euro 17.3 million and refer to properties.

OWN FUNDS AND CAPITAL REQUIREMENTS

The capital requirements to be met as at 31 December 2019, including Capital Guidance, in terms of the Common Equity Tier 1 Ratio, Tier 1 Ratio and Total Capital Ratio, respectively amount to 7.7%, 9.438% and 11.75% on the basis of criteria in force 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 12.8% and “IFRS 9 fully phased” at 12.0%, up significantly on the values as at 31 December 2018 which were 11.2% and 10.4%, respectively;

- Tier 1 Ratio “IFRS 9 phased-in” was estimated at 12.8% and “IFRS 9 fully phased” at 12.0%, up significantly on the values as at 31 December 2018 which were 11.2% and 10.4%, respectively;
- Total Capital Ratio “IFRS 9 phased-in” was estimated at 15.0% and “IFRS 9 fully phased” at 14.3%, up significantly on the values as at 31 December 2018 which were 13.3% and 12.4%, respectively.

LIQUIDITY

The liquidity position at the end of 2019 showed more than adequate liquidity:

- readily available assets, including assets eligible for allocation to Central Banks received as collateral (excluding those given as collateral), amounted to Euro 1,217 million;
- ECB financing transactions to optimise the cost of funding and support business customer investments averaged Euro 1,033 million in 2019 (average Euro 1,008 million in 2018), 96.8% 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 72.9% referring to the retail component;
- medium-term and long-term funding for around Euro 813 million in 2019, of which over Euro 435 million relating to the wholesale component.

The liquidity ratios were much higher than regulatory requirements:

- LCR over 170%, much higher than the 100% envisaged as target by Basel 3;
- NSFR calculated according to Basel 3 rules was over 110%, much higher than the 100% envisaged as target by Basel 3.

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As at 31 December 2019, the operating structure was made up of 160 bank branches and 1,278 people.

With a view to offering a more complete disclosure on the results achieved in 2019, 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 *(amounts in thousands of Euro)*	**31.12.2019**	**31.12.2018 (*)**
Loans to banks	232,763	48,929
Loans to customers	7,279,977	7,275,467
- at amortised cost	*7,243,438*	*7,227,655*
- at fair value through profit or loss	*36,539*	*47,812*
Financial assets other than loans, measured at amortised cost	1,673,265	1,212,245
Financial assets designated at fair value through profit or loss	112,683	242,210
Financial assets designated at fair value through other comprehensive income	629,298	829,144
Investments	5,407	5,745
Property and equipment and intangible assets	151,438	234,572
User rights	15,982	20,125
Tax assets	174,963	174,705
Non-current assets and groups of assets held for sale	17,322	12,923
Other assets	268,665	219,497
Total assets	**10,561,763**	**10,275,562**

Liabilities and shareholders' equity *(amounts in thousands of Euro)*	**31.12.2019**	**31.12.2018 (*)**
Due to banks at amortised cost	1,247,848	1,418,187
Financial liabilities to customers at amortised cost	8,222,768	7,663,294
- due to customers	*7,406,814*	*6,965,074*
- debt securities issued	*815,954*	*698,220*
Financial liabilities held for trading	1,485	1,429
Tax liabilities	23,914	31,254
Provisions for risks and charges	17,480	20,729
Other liabilities	283,060	285,341
Payables for user rights	15,851	20,125
Shareholders' equity:	749,357	835,203
- Share capital	*182,867*	*183,440*
- Profit reserves	*651,042*	*632,893*
- Valuation reserves	*(180)*	*(15,387)*
- Profit (loss) for the period	*(84,372)*	*34,257*
Total liabilities and shareholders' equity	**10,561,763**	**10,275,562**

(*) Figures restated, where necessary and if material, to take into account changes arising on first-time adoption of IFRS 16.

RECLASSIFIED INCOME STATEMENT

RECLASSIFIED INCOME STATEMENT ITEMS	31.12.2019	31.12.2018 (*)
(amounts in thousands of Euro)		
Net interest	174,927	165,392
Dividends and profits (losses) on investments carried at equity	2,417	3,147
Financial margin	**177,344**	**168,539**
Net fee and commission income	89,491	89,112
Net profit (loss) on financial assets and liabilities designated at fair value	7,112	4,249
Other operating income/expenses	19,934	19,346
Other operating income	**116,537**	**112,707**
Net operating income	293,881	281,246
Personnel expenses	**(94,559)**	**(98,331)**
Administrative expenses	(72,702)	(70,362)
Net adjustments to property and equipment and intangible assets	(13,480)	(14,195)
Operating costs	**(180,741)**	**(182,888)**
Operating profit (loss)	**113,140**	**98,358**
Net adjustments to loans and other financial transactions	(97,472)	(43,789)
Net adjustments to other assets	3,953	735
Net provisions for risks and charges	(7,205)	(5,063)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	1,306	2,176
Profit (loss) on continuing operations	**13,722**	**52,417**
Period-end income taxes for continuing operations	(4,308)	(12,112)
Taxes and charges relating to the banking system net of taxes	(6,409)	(6,050)
Profit (loss) for the period (before adjustment to goodwill)	**3,005**	**34,255**
Value adjustments to goodwill, net of taxes	(87,378)	-
Profit (loss) for the period (after adjustment to goodwill)	**(84,373)**	**34,255**

(*) Figures restated, where necessary and if material, to take into account changes arising on first-time adoption of IFRS 16.

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Volksbank, with registered office in Bolzano, is a regional bank which, in addition to its original market of Alto Adige, also operates in the provinces of Trento, Belluno, Treviso, Pordenone, Vicenza, Padua and Venice. Volksbank has a total of 169 active branches. The Bank (founded in 1886) has 1,300 employees and approximately 60,000 shareholders.