Creval

PRESS RELEASE

APPROVED CONSOLIDATED RESULTS AS AT 30 JUNE 2019, WITH A NET INCOME OF 23.5MLN EURO, ON THE RISE COMPARED TO 0.8MLN EURO IN H1 2018

IMPLEMENTED FIRST BUSINESS PLAN ACTIONS TO DISPOSE OF NPLs AND SUPPORT THE DEVELOPMENT OF COMMERCIAL ACTIVITIES

SIGNED TODAY A BINDING AGREEMENT WITH CUSTODIA VALORE (DOROTHEUM GROUP) TO SELL THE PLEDGE LOAN BUSINESS LINE, CONFIRMING OUR FOCUS ON BUSINESSES THAT ARE STRATEGIC FOR THE DEVELOPMENT OF THE BANK

- **Capital gain of 33 million euro pre-tax, with a positive fully-loaded CET 1 ratio effect of approx. 20 basis points in the second half of the year**

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RECOVERY OF THE COMMERCIAL ACTIVITIES CONFIRMED

- **Deposits increased by 4.3% q/q and by 10.2% year to date**

POSITIVE NON-RECURRING ITEMS AIMED AT INCREASING LOAN LOSS PROVISIONS TO STEP UP THE PLANNED SALE OF AN NPL POOL WITH A GBV OF ABOUT 800MLN EURO

- **NPL coverage ratio: 58.9% vs. 55.9% at 31 December 2018**
- **Bad loans coverage ratio: 81.4% vs. 75.1% at 31 December 2018**

STRONG CAPITAL SOLIDITY

- **CET 1 at 14.0% fully-loaded and 18.5% phased-in**
- **Hefty excess capital over the 2019 SREP minimum requirement (8.25%)**

ROBUST LIQUIDITY POSITION

- **LCR and NSFR > 100%**
- **3.7bn eligible unencumbered assets[1]**

[1] Data at 31/07/19

Sondrio, 6 August 2019 – The Board of Directors of Creval examined and approved the consolidated results as at 30 June 2019, reporting a net income soaring to 23.5 million euro, as compared to 0.8 million euro posted in the same period of 2018.

"The business plan implementation is in full swing, we closed the first half posting a good result and we have already opened the way to the NPL disposal also thanks to the non-recurring revenues booked in the period, soon to be augmented by the capital gain from the disposal of the pledge loan business line signed today. The NPL reduction is one of the Plan's major pillars, and now we can really zero in on profitability with the development of our commercial activity, which in H1 has already shown positive signs, in particular with regard to deposits that grew at a double-digit rate since the beginning of the year" remarked **Luigi Lovaglio**, **CEO** of Creval.

Key balance sheet items

Direct customer funding, excluding repos, came in at 17.3 billion euro, up by 6.7% compared to 31/12/18, driven by the increase in deposits (+10.2%) accomplished by the successful performance of our commercial strategy during the first half of the year. Following the gradual reduction in repos during the first six months of this year (-48.9% from 31/12/2018), **total direct funding** stood at 19.2 billion euro, down by 3.6% over 31/12/18.

Loans and advances to customers, excluding securities, amounted to 14.6 billion euro, down by 6.7% compared to 31/12/18, following the elimination of repos (435.7 million euro at year-end 2018) and the greater focus of the commercial activity on retail customers, which led to an increase in retail loans of 0.9% and a decline in corporate loans of 5.2%.

Including debt securities (mainly government bonds), total net receivables came in at 19.8 billion euro, down by 7.7% compared to year-end 2018, mainly driven by the ongoing reduction of the securities portfolio.

Net non-performing exposures totaled 794.4 million euro, down by 8.8% compared to 31/12/2018 (871 million euro).

In particular, **bad loans** came to 161 million euro, down by 21% compared to 31/12/18 (204 million euro); **unlikely-to-pay loans** added up to 576 million euro, down by 4.8% over 31/12/18 (605 million euro); **past-due loans** stood at 57 million euro, down by 8.1% compared to 31/12/18 (62 million euro).

The NPL coverage ratio came to 58.9%, growing further compared to 55.9% on 31/12/2018.

More specifically, the coverage of the single NPL classes breaks down as follows:

- bad loans at 81.4% (75.1% at 31/12/18);
- UTPs at 42.3% (44.1% at 31/12/18);
- past dues at 11.5% (15.7% at 31/12/18).

The coverage of performing loans to customers (excluding government bonds) came in at 0.6%, in line with 31/12/18.

Indirect funding ran at 10.3 billion euro, up by 2.6% compared to 31/12/18, driven by the increase in AuM, totaling 7.3 billion euro (+3.6% year to date). Assets under administration came to 3.0 billion euro, in line with 31/12/2018.

Financial assets represented by securities stood at 7.2 billion euro, down by 8.8% compared to 31/12/18, mainly due to the reduction in the securities portfolio currently underway. Specifically, government bonds stood at 5.7 billion euro, down by 9.1% compared to 31/12/18 (6.3 billion euro). The portfolio of Italian government bonds measured at FVTOCI (net of tax effect) is negative by 5 million euro, on the rise compared to 31/12/2018 (-20.5 million euro).

The bank continues to enjoy a solid liquidity position. Total eligible unencumbered assets added up to 3.7 billion euro and the liquidity ratios "LCR" and "NSFR" are well above the regulatory requirements.

Shareholders' equity and capital ratios

The Group's **Shareholders' equity** at 30 June 2019 stood at 1,614 million euro, compared to 1,566 million euro at 31 December 2018.

Under the phase-in regime, the CET1 ratio at 30 June 2019 was 1,822 million euro, against risk-weighted assets (RWA) of 9.872 million euro. Total own funds added up to 2,007 million euro.

The Bank's capital ratios are as follows:

- CET1 ratio 18.5%
- Tier 1 ratio 18.5%
- Total Capital ratio 20.3%

Our capital ratios run well above the SREP minimum requirements Creval has to comply with based on the final measure sent by the Bank of Italy at the end of the 2019 prudential audit process.

The requirements are to be complied with as of the reporting of own funds at 30 June 2019, notably:

- CET1 ratio 8.25%
- Tier1 ratio 9.75%
- Total Capital ratio 11.75%

The fully loaded CET1 ratio[2] at 30 June 2019 was 14.0%, reporting a further progress compared to 31/12/18 (13.5%), giving rise to an excess capital of ~575 basis points over the 2019 SREP minimum requirement (8.25%).

Operating results

Net interest income stood at 178.6 million euro, basically in line with H1 2018 (178.9 million euro), notwithstanding the negative impact from the first-time adoption of IFRS 16 as of 1/1/2019. Under this aggregate, the contribution of the securities portfolio added up to 31.4 million euro.

[2] Excluding the phase-in regime of the IFRS9 FTA impact.

In Q2 2019 it came in at 87.3 million euro, down compared to the previous quarter (91.3 million euro), as a result of the decline in repos, as well as of the increase in deposit volumes in keeping with the Plan strategy.

Net fees and commissions in Q2 2019 came in at 62.1 million euro, compared to 61.7 million euro in the prior quarter, following an increase in commissions from both the traditional banking (+0.7%) and the asset management businesses (+1.1%). In H1 they added up to 123.8 million euro, down by 11.2% on a yearly basis mainly due to a decline in up-front fees that in Q1 2018 had been particularly high.

Net income from **trading, hedging, disposal and repurchase activities** was 22.8 million euro (of which 21.4 million euro booked in Q2 2019), up compared to 16.5 million euro in H1 2018, mainly driven by the capital gain from the valuation of the interest held in Nexi S.p.A, with most of the stake being sold during the company's IPO.

Operating income added up to 331.2 million euro compared to 341.0 million euro reported in H1 2018.

Personnel expenses amounted to 136.8 million euro, down by 29.3%, compared to 193.4 million euro in H1 2018, which included the cost tied to the early termination plan implemented last year. In Q2 2019 they came in at 66.2 million, compared to 70.6 million euro in the prior quarter.

Other administrative expenses added up to 75.3 million euro, down by 25.4% y/y, as a result of the adoption of IFRS 16 and of savings achieved through cost-efficiency actions. In Q2 2019 they came in at 35.9 million euro, compared to 39.5 million euro in the prior quarter.

In H1 2019, the contributions to the Resolution Fund added up to 11.2 million euro, of which 8.2 million euro reported in Q1 as an ordinary contribution, and 3 million euro in Q2 as an extraordinary contribution.

Net write-down of tangible and intangible assets came in at 21.9 million euro, up compared to 12.6 million euro in H1 2018, due to the impact from the adoption of IFRS 16.

Total **operating costs** stood at 234 million euro, well below the 307 million euro posted in the same period of 2018.

Net operating profit came to 97.2 million euro, up compared to 34 million euro reported in H1 2018.

Net write-down/write-back for credit risk came in at 101.9 million euro. This line-item includes non-recurring loan loss provisions aimed at strengthening the coverage ratio in view of the NPL disposal under the 2019-2023 Business Plan.

The **gain on sale/repurchase of financial assets measured at amortized cost** amounted to 6.3 million euro. It mainly refers to the sale of Government bonds held in portfolio over the six-month period. This figure compares with a loss of 95.2 million euro in the same period last year, tied to the NPL disposals in H1 2018.

Provisions for risks and charges added up to 10.6 million euro, compared to 4.6 million euro in H1 2018.

The **gain on disposal of equity and other investments** was 5.2 million euro, against a loss of 19 thousand euro reported in the same period last year.

Net of H1 2019 non-recurring items, the **result on continuing operations before tax** would have been widely positive, compared to the booked loss of -3.7 million euro.

Income tax for the period amounted to 27.2 million euro as a result of the recognition of DTAs, tied to the partial reassessment of deferred taxes on unrecognized past tax losses.

The net income for the period stood at 23.5 million euro, as compared to 0.8 million euro reported in H1 2018.

Operational outlook

In 2019 the European economy is expected to grow at a rate close to 1.1%. However, the risks of a downward revision due to external factors have increased, including continued trade tensions between the US and China and significant political uncertainty, which could have negative repercussions on the entire manufacturing sector and thus have a negative impact on growth prospects for the rest of the year.
Based on this macro-economic framework, the ECB tweaked its communication strategy in the first few months of the year, showing a more accommodating attitude for the months ahead.
After the 0.1% increase reported by the Italian GDP in the first quarter, preliminary data for the second quarter show a steady GDP, confirming the phase of substantial stagnation that the Italian economy is going through.

Against this backdrop, in the second half of the year the Bank is going to focus on the implementation of the guidelines mapped out in the 2019-2023 Business Plan approved in June. A special attention will be devoted to the growth of our commercial activity towards households and SMEs and to the rationalization of the cost base. A prudent management of the proprietary portfolio is confirmed, leading to a progressive reduction in held securities.

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Today Creval has signed a binding agreement regarding the sale of the pledge loans business line to Custodia Valore - Credito su Pegno S.p.A., a company belonging to the Wien-based Group Dorotheum, in line with the 2019-2023 Business Plan's pillars, aimed at strengthening the business model of a commercial bank with a strong local identity at the service of households and small and medium enterprises.

In keeping with the Bank's new development strategy, focusing on a relaunch also through significant investments to support growth, today's agreement fully replaces the one entered on 9 August 2018, which arranged for a contribution in kind of the above mentioned business unit and the acquisition of a 22% minority stake in Custodia Valore.

The agreement contains also the commitment by Creval to (i) grant credit facilities to Custodia Valore to support ordinary activities; and (ii) to continue to provide information technology and support services to the company.

Upon completion of the transaction, valued to date at 38 million euro, the Bank will generate an estimated gross capital gain of approx. 33 million euro, with an estimated positive effect on the fully-loaded CET1 capital ratio of roughly 20 basis points[3], thus further strengthening the already solid capital position. The transaction, subject to the authorization of the competent Supervisory Authorities, is expected to be closed by the end of 2019.

Please find below the key financial highlights and alternative performance indicators, together with the reclassified consolidated Statement of Financial Position and Income statement.

Audits by the Audit firm are still underway.

Statement of the financial reporting officer

The financial reporting officer, Mrs. Simona Orietti, in compliance with paragraph two of art. 154 *bis* of the "Consolidated act for financial intermediation", hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

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[3] Based on capital ratios as at 30 June 2019.

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PRESS RELEASE

CONSOLIDATED FINANCIAL HIGHLIGHTS AND ALTERNATIVE PERFORMANCE INDICATORS

STATEMENT OF FINANCIAL POSITION DATA	30/06/2019	31/12/2018	Change
(in thousands of EUR)			
Loans and receivables with customers	19,757,148	21,413,093	-7.73%
Financial assets and liabilities measured at fair value	1,918,737	2,038,300	-5.87%
Non-current assets held for sale and disposal groups	86,099	75,548	13.97%
Total assets	25,024,165	26,472,669	-5.47%
Direct funding from customers	19,231,732	19,944,672	-3.57%
Indirect funding from customers	10,317,436	10,060,828	2.55%
of which:			
- Managed funds	7,315,191	7,059,571	3.62%
Total funding	29,549,168	30,005,500	-1.52%
Equity	1,613,669	1,566,242	3.03%

SOLVENCY RATIOS	30/06/2019	31/12/2018
Common Equity Tier 1 capital / Risk-weighted assets (CET1 capital ratio)	18.5%	18.3%
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	18.5%	18.3%
Total own funds / Risk-weighted assets (Total capital ratio)	20.3%	20.2%

Figures calculated provisionally pending the submission to the Supervisory Authority

FINANCIAL STATEMENT RATIOS	30/06/2019	31/12/2018
Indirect funding from customers / Total funding	34.9%	33.5%
Managed funds / Indirect funding from customers	70.9%	70.2%
Direct funding from customers / Total liabilities and equity	76.9%	75.3%
Loans and receivables with customers / Direct funding from customers	102.7%	107.4%
Loans and receivables with customers / Total assets	79.0%	80.9%

CREDIT RISK	30/06/2019	31/12/2018	Change
Net bad loans (in thousands of EUR)	161,439	204,422	-21.03%
Other net doubtful loans (in thousands of EUR)	632,963	666,761	-5.07%
Net non-performing loans (in thousands of EUR)	794,402	871,183	-8.81%
Net bad loans / Loans and receivables with customers	0.8%	1.0%	
Other net doubtful loans / Loans and receivables with customers	3.2%	3.1%	
Net non-performing loans / Loans and receivables with customers	4.0%	4.1%	

Loans and receivables with customers classified under non-current assets held for sale and disposal groups are not included

CREDIT QUALITY	30/06/2019				31/12/2018			
	Gross amount	Impairment losses	Carrying amount	% coverage	Gross amount	Impairment losses	Carrying amount	% coverage
Non-performing loans								
Bad loans	869,941	-708,502	161,439	81.4%	820,875	-616,453	204,422	75.1%
Unlikely to pay	999,094	-422,660	576,434	42.3%	1,082,291	-477,036	605,255	44.1%
Past due non-performing loans	63,872	-7,343	56,529	11.5%	72,952	-11,446	61,506	15.7%
Total non-performing loans	**1,932,907**	**-1,138,505**	**794,402**	**58.9%**	**1,976,118**	**-1,104,935**	**871,183**	**55.9%**
Performing loans - stage 1	17,560,954	-27,530	17,533,424	0.16%	19,008,566	-34,170	18,974,396	0.18%
Performing loans - stage 2	1,494,468	-65,146	1,429,322	4.36%	1,629,593	-62,079	1,567,514	3.81%
Total loans and receivables with customers	**20,988,329**	**-1,231,181**	**19,757,148**		**22,614,277**	**-1,201,184**	**21,413,093**	

The coverage ratio is calculated as the ratio between impairment losses and gross amount
Loans and receivables with customers classified under non-current assets held for sale and disposal groups are not included
At 30 June 2019 performing loans includes Government bond for a gross amount of EUR 4,088,838 thousand

ORGANISATIONAL DATA	30/06/2019	31/12/2018	Change
Number of employees	3,668	3,668	-
Number of branches	362	365	-0.82%

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

The consolidated results include, starting from January 1, 2019, the effects of the first time adoption of IFRS 16, which entails a different accounting for existing leasing transactions, both from an economic and an asset perspective. The period of comparison, referring to 31 December 2018 and the first half of 2019, have not been restated. Therefore some elements are not perfectly comparable.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of EUR)

ASSETS	30/06/2019	31/12/2018	Change
Cash and cash equivalents	168,203	200,153	-15.96%
Financial assets at fair value through profit or loss	202,800	235,378	-13.84%
Financial assets at fair value through other comprehensive income	1,874,934	1,937,531	-3.23%
Loans and receivables with banks	1,251,681	1,205,925	3.79%
Loans and receivables with customers	19,757,148	21,413,093	-7.73%
Equity investments	17,702	20,269	-12.66%
Property, equipment and investment property and intangible assets (1)	609,177	447,642	36.09%
Non-current assets held for sale and disposal groups	86,099	75,548	13.97%
Other assets (2)	1,056,421	937,130	12.73%
Total assets	**25,024,165**	**26,472,669**	-5.47%

(1) Include items "90. Property, equipment and investment property" and "100. Intangible assets"
(2) Include items "110. Tax assets" and "130. Other assets"

(in thousands of EUR)

LIABILITIES AND EQUITY	30/06/2019	31/12/2018	Change
Due to banks	3,232,949	4,096,231	-21.08%
Direct funding from customers (1)	19,231,732	19,944,672	-3.57%
Financial liabilities held for trading	63	64	-1.56%
Hedging derivatives	158,934	134,545	18.13%
Liabilities included in disposal groups classified as held for sale	2,347	2,271	3.35%
Other liabilities	539,498	491,739	9.71%
Provisions for specific purpose (2)	244,953	236,885	3.41%
Equity attributable to non-controlling interests	20	20	-
Equity (3)	1,613,669	1,566,242	3.03%
Total liabilities and equity	**25,024,165**	**26,472,669**	-5.47%

(1) Includes item "10. Financial liabilities measured at amortised cost: b) due to customers; c) securities issued"
(2) Include items "60. Tax liabilities", "90. Post-employment benefits" and "100. Provisions for risks and charges"
(3) Includes items "120. Valuation reserves", "150. Reserves", "160. Share premium reserve", "170. Capital", "180. Treasury shares", and "200. Profit for the period"

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in thousands of EUR)

ITEMS	1st half of 2019	1st half of 2018	Change
Net interest income	**178,573**	**178,879**	**-0.17%**
Net fee and commission income	123,807	139,422	-11.20%
Dividends and similar income	924	1,867	-50.51%
Profit of equity-accounted investments (1)	817	1,299	-37.11%
Net trading, hedging income (expense) and profit (loss) on sales/repurchases (2)	22,775	16,473	38.26%
Other operating net income (3)	4,326	3,039	42.35%
Operating income	**331,222**	**340,979**	**-2.86%**
Personnel expenses	(136,811)	(193,432)	-29.27%
Other administrative expenses (4)	(75,346)	(100,957)	-25.37%
Depreciations/amortisations and net impairment losses on property, equipment and investment property and intangible assets (5)	(21,855)	(12,567)	73.91%
Operating costs	**(234,012)**	**(306,956)**	**-23.76%**
Net operating profit	**97,210**	**34,023**	**185.72%**
Impairment or reversal of impairment and modification gains (losses) (6)	(101,862)	22,202	n.s.
Profit (Losses) on derecognition of financial assets valued at the amortised cost (7)	6,292	(95,220)	n.s.
Net accruals to provisions for risks and charges	(10,551)	(4,575)	n.s.
Net gains (losses) on sales of investments and valuation differences on property and equipment at fair value (8)	5,211	(19)	n.s.
Badwill (9)	-	15,357	n.s.
Pre-tax loss from continuing operations	**(3,700)**	**(28,232)**	**-86.89%**
Income taxes	27,246	30,777	-11.47%
Post-tax profit from continuing operations	**23,546**	**2,545**	**n.s.**
Profit for the period attributable to non-controlling interests	-	(1,721)	n.s.
Profit for the period	**23,546**	**824**	**n.s.**

(1) Net gains on equity-accounted investments include net gains (losses) on equity-accounted investments included in item "250. Net gains on equity investments"; the residual amount of that item is included in gains on sales of investments, together with item "280. Net gains (losses) on sales of investments"
(2) Includes item "80. Profit (Losses) on trading", "90. Fair value adjustments in hedge accounting", "100. Profit (loss) on sale or repurchase of: a) financial assets at amortised cost; b) financial assets at fair value through other comprehensive income; c) financial liabilities" and "110. Profits (Losses) on other assets and liabilities at fair value through profit or loss: b) other financial assets mandatorily measured at fair value through profit or loss"
(3) Other income and charges correspond to item "230. Other operating expenses/income" net of the explained reclassifications
(4) Other administrative expenses include recoveries of taxes and other recoveries recognised in item "230. Other operating expenses/income" (EUR 18,782 thousand in First half 2019 and EUR 21,686 thousand in First half 2018);
(5) The net impairment losses on property and equipment and intangible assets include items "210. Depreciation and net impairment losses on property and equipment", "220. Amortisation and net impairment losses on intangible assets" and the accumulated depreciation of costs incurred for leasehold improvements included in item "230. Other operating expenses/income"(EUR 441 thousand in First half 2019 and EUR 500 thousand in First half 2018)
(6) Include items "130. Impairment or reversal of impairment on; a) financial assets at amortised cost; b) financial assets at fair value through other comprehensive income" and "140. Modification gains (losses)"
(7) Include item "100. Net gains (losses) on sales or repurchase of: a) financial assets valued at the amortised cost"
(8) Include the residual amount of item "250. Net gains on equity investments" not included among net gains on equity-accounted investments, together with item "280. Net gains on sales of investments" and item "260. Net result of property, equipment and investment property and intangible assets at fair value"
(9) Include badwill accounted in item "230. Other operating expenses/income"