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Testo del comunicato

Vedi allegato.

NEWS RELEASE

Verona 12 May 2015

Banco Popolare approves the Consolidated Quarterly Report as at 31 March 2015

In the first quarter of 2015, the Group swings back to profit: net income comes in at 209 million (217 million net of Fair Value Option)

Excellent operating performance:

- *Total income at 954 million, up by 6.9% compared to 31 March 2014 and by 27.5% compared to the last quarter last year;*
- *Core revenues at 838 million, up by 6.8% compared to 31 March 2014 and by 15.6% compared to the last quarter last year;*
- *Operating costs at 539 million, down by 2.7% compared to 31 March 2014;*
- *Strong decline in the cost of credit at 181 million, corresponding to 82 basis points p.a.*

Normalized net income for the period *at 151 million.*

Capital position*:*

- *"Phase-in" CET 1 ratio at 31 March 2015, including the Q1 net income, remains stable at 11.9% compared to year-end 2014. The pro-forma[1] ratio is 12.0%;*
- *"Fully-loaded" CET 1 ratio at 31 March 2015, including the Q1 net income, runs at 11.6% (11.3% at 31 December 2014). The pro-forma ratio reaches 11.8%;*
- *Basel 3 phase-in leverage ratio, including Q1 net income, at 5.0%;*
- *Basel 3 fully-loaded leverage ratio, including Q1 net income, at 4.8%.*

Liquidity profile*:*

- *LCR in line with Basel 3 fully-loaded target: >100%*
- *NSFR calculated along the most recent rules of the Quantitative Impact Study at approx. 95%;*
- *Core direct funding at approx. 40 billion.*

[1] Calculated taking into account the 689.8 million decline in risk-weighted assets reported on 11 April 2015 following the conversion of deferred tax assets into tax credits after the approval of Banco Popolare's Annual Report by the Shareholders' Meeting.

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***Credit Risk**:*
- *Marked reduction in Non-performing loan inflows (-76.3%) compared to the same period last year;*
- *165 million decline in gross Non-performing loan stock (-0.8% compared to year-end 2014);*
- *Further bolstering of the NPL coverage level, which at 31 March 2015 came in at 45.1% (44.6% at year-end 2014);*
- *Marked reduction in quarter annualized cost of credit at 82 b.p., compared to 144 b.p. reported in Q1 2014.*

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In today's meeting, the Board of Directors of Banco Popolare has approved the Consolidated Quarterly Report as at 31 March 2015.
In Q1 2015, with the finalization of the merger of the subsidiary Banca Italease into Banco Popolare S.C. the Group completed the corporate reorganization underway, and further strengthened its capital position. With a strong focus on its core business, in Q1 the Group generated a total income of 954 million, up by 6.9% compared to 893 million in the same period last year. The increase was confirmed also for the core revenues aggregate, represented by net interest income, net fees and commissions and operating income, totalling 838 million, with a 6.8% increase from 785 million in Q1 2014. The favourable revenue trend was further buoyed by an additional 2.7% decline in operating costs, totalling 539 million, compared with 555 million in the same period of 2014.
Profit from operations, amounting to 415 million, thus grew by 22.7% compared to 338 million in Q1 2014.
Net income for the period benefitted from the slowdown of NPL inflows, which caused the cost of credit to almost halve (181 million compared to 328 in Q1 2014), as well as from the positive effect on income tax produced by the recognition of DTAs (deferred tax assets) related to the tax losses carried forward of the acquired company Banca Italease (+85 million). The operating performance has, however, been penalized by the recognition in provisions for risks and charges of the best estimate of the contribution Banco will be required to pay to the National Resolution Fund in compliance with the Bank Resolution and Recovery Directive (-23 million gross of foreseeable tax effect) and of the liability generated by the unexpected unfavorable decision of the Court of Cassation regarding a tax litigation of a subsidiary (-18 million).
Net of the negative effect of the fair value option (FVO), totalling -8 million, net income for the period added up to 217 million (+1 million at 31 March 2014). Including the FVO effect, the quarter closed with a net income of 209 million.

Operating performance

Net interest income stood at 387.6 million, up by 4.0 % compared with the same period of the prior year (372.5 million), and is basically in line with the Q4 2014 contribution (388.3 million), in spite of the different length of the two quarters (-2 days). Compared to the last quarter of 2014, NII has been characterized by declining average loan and deposit volumes, that however were more than offset by the rebound of the average total net interest spread (+5 b.p.). More specifically, the average spread benefitted from the constant improvement of the cost of funding (liability spread rose by 7 b.p.) offsetting the decline in asset spread (-2 b.p.).
Income from equity method investments came in at 24.6 million compared to 19.4 million in Q1 2014 (+25.0 million in Q4 2014). The positive contribution to Q1 2015 was mainly driven by the equity stakes held in Agos Ducato (+13.6 million compared to 2.9 million in Q1 2014), in Popolare Vita (+6.3 million compared to 13.4 million at 31 March 2014), in Avipop Assicurazioni (+4.2 million compared to 4.1 million in Q1 2014).

As a result of the above dynamics, **net interest, dividend and similar income** came in at 412.2 million, up by 5.2% from 391.9 million in Q1 2014.
Net commissions stood at 422.3 million, up by 13.6% from 371.7 million in Q1 2014 (310.5 million in Q4 2014). The contribution of the current quarter represents the Group's best quarterly performance ever, and it was achieved thanks to the growth in commissions from management, brokerage and advisory services, which came in at 246.4 million, up by 25.0% from 197.1 million in Q1 2014. This commission line was driven by the distribution of asset management products, in particular by the substantial sale of fund units to meet the growing demand from customers.
Other revenues added up to 28.3 million, reporting a significant decline from 40.6 million posted in Q1 last year (26.3 million in Q4 2014). The decline was driven by the decline in fixed commissions ("*commissioni di istruttoria veloce*") charged to customers.
For a better and ready understanding of the contribution of net financial income, **the effects of rating changes on debt securities issued measured at fair value (FVO)** are shown under a separate line-item of the reclassified income statement, right below income or loss from continuing operations. As a result of Banco's credit rating upgrade, the FVO in Q1 2015 was negative by 12.6 million (-8.4 million after tax). In the same period of 2014, it had been still a negative contribution of -30.1 million (-20.1 million after tax).
The **net financial income net of FVO** came in at 91.2 million compared to 88.4 million in Q1 2014 (-1.9 million in Q4 2014). The subsidiary Banca Aletti contributed to this result with 46.9 million, in line with the same period last year (+47.1 million). As to the management of the Parent company's securities portfolio and treasury, the Q1 contribution was 44.1 million, up compared to Q1 2014, and it was mainly driven by the good performance of the trading activity and of the securities portfolio in general.
Other operating income (other than net interest, dividend and similar income) therefore added up to 541.8 million, from 500.7 million at 31 March 2014, up by 8.2%. **Total income** (interest, dividend and similar income + other operating income) came in at 954.0 million compared to 892.6 million on 31 March 2014 (+6.9%). Income from "core business", resulting from the sum of net interest income, net commission income and other revenues, added up to 838.2 million, up by 6.8% compared to 784.9 million in Q1 2014.
Notwithstanding the wage increase under the prior national labour contract (CCNL), **personnel expenses** stood at 341.4 million, reporting a 0.8% decline compared to 344.2 million on 31 March 2014 (376.1 million in Q4 2014, which however included non-recurring charges associated with the agreement for the termination of redundant personnel). Personnel expenses were reduced thanks to the decline in the average headcount (-509 FTEs on a yearly basis). On 31 March 2015, the total headcount was 17,166 FTE employees, compared to 17,179 on 31 December 2014 and 17,685 on 31 March 2014.
The stringent cost control affected also **other administrative expenses,** which on 31 March 2015 added up to 165.5 million, up by 2.3% compared to 161.7 million in Q1 2014, which had been benefitted by a non-recurring item of 7.0 million. On a comparative basis, these expenses declined by 1.9%. **Depreciation and amortization** for the period amounted to 32.5 million, compared to 48.8 million on 31 March 2014. The strong decline is due to the fact that the data at 31 March 2014 included non-recurring impairments (-17.6 million) to bring the book value of certain real estate assets classified as property investments in line with the estimated recoverable amount based on the latest appraisals. The same non-recurring items factored in at 31 March 2015 were limited to 3.8 million. Net of non-recurring items, the adjustments under examination reported a decline of 7.7% over Q1 2014.
As a result, total **operating costs** came in at 539.5 million, down by 2.7% compared to 554.7 million in Q1 2014. Net of non-recurring impairments, the aggregate reported a reduction of 1.6%. The cost/income ratio for the period, namely the ratio between total operating expenses net of non-recurring impairments, and total operating income net of the fair value option, comes in at 56.2 % (61% on 31 March 2014).
Profit from operations totalled 414.5 million up by 22.7% compared to 337.9 million in Q1 2014. Even net of the non-recurring items included in operating costs, the aggregate is still confirming its positive trend (+19.0% compared to Q1 2014).
Net write-downs on customer loan impairments stood at 181.4 million compared to 328.0 million in Q1 2014, thanks to the reduction in net new NPL inflows, which in Q1 2015 dropped to 206 million from 869 million in Q1 2014. The "Leasing" component (represented by the Leasing Division of Banco Popolare and by the subsidiary Release Spa) amounted to 24.7 million. The **cost of credit**, measured as the ratio between net loan write-downs and net loans, came in at 82 b.p. per annum, compared to 144 reported in the same period last year.

Also, 3.6 million worth of **net write-downs on impairment of other assets** were charged to income (3.5 million in Q1 2014).
Net provisions for risks and charges totalled 43.2 million compared to 1.5 million in Q1 2014. They include the allocation of the best estimate of the contribution commitment due to the National Resolution Fund (23.0 million), and the provision against the liability generated by the unexpected unfavourable decision of the Court of Cassation which overturned the favourable decisions by lower courts regarding a tax litigation of a subsidiary dating back to 2006 (17.7 million).
Over the period, **gains on disposal of equity and other investments** totalled 0.1 million, generated by the sale of own property (compared to a gain of 1.0 million reported on 31 March 2014).
Income before tax from continuing operations came in at 186.3 million compared to 5.9 million in Q1 2014.
Income tax from continuing operations at 31 March 2015 posted a benefit of +27.0 million (compared to an expense of -5.3 million at 31 March 2014), as it includes the positive effect from the recognition of deferred tax assets associated to the tax losses carried forward of the subsidiary Banca Italease, that can be carried forward with no time limit (85.1 million). The recognition is justified by the different taxable income generation capacity of Banco Popolare compared to the subsidiary.
Considering the attribution of the share of loss of 3.9 million to minority interest, and the FVO impacts described above (-8.4 million after-tax), Q1 2015 ended with a **net income for the period** of 208.8 million, compared to a net loss of 19.0 million reported in Q1 2014.

Evolution of key balance sheet items

At 31 March 2015, **direct funding** reached 85.7 billion, down by 0.9% from 86.5 billion on 31 December 2014 and by 3.7% from 89.0 billion on 31 March 2014. The year-on-year reduction, together with the similar decline is asset volumes, is mainly attributable to the decline in bond-based funding (mainly retail), as part of the strategy to contain overall funding costs. The reduction in direct funding was partly offset by the increase in cheaper funding sources, namely checking accounts and deposits (+2.4%), as well as repos and securities lending transactions. The decline in direct funding has also been offset to a great extent by the stable liquidity flow generated by the stock of certificates issued by the Group, which on 31 March 2015 had a nominal value in excess of 4 billion.
The decline reported in Q1 2015 is attributable to the redemption of matured bonds that were not replaced by new issues, and to the preference displayed by customers towards the search for more favourable returns to be obtained from asset management products.

In keeping with the commercial policy pursued in Q1 2015, **indirect funding** went up by 10.4% to 73.4 billion, compared to 66,5 billion at year-start, and by 9.8% compared to 66.8 billion on 31 March 2014.
The yoy increase (on a like-for-like basis) was driven by both assets under management, totalling 35.2 billion on 31 March 2015 (+9.5%), and by assets under administration, amounting to 38.2 billion (+10.1%). The growth in AuM was mainly driven by the marked development of the Mutual Funds and Sicav compartment (+26.1%) and by insurance policies (+9.6%).
The growth reported in Q1 2015 (+10.4%) was instead mainly driven by assets under administration, which on a like-for-like basis experienced a marked expansion as a result of the rising prices of the financial assets held by customers, buoyed by the positive market performance. In any case, also assets under management reported an increase (+3.1%) resulting from the distributed mutual fund and Sicav volumes.

At 31 March 2015, **gross loans** amounted to 88.6 billion, down by 2.6% compared to 91.0 billion on 31 March 2014, but up by 1.1% compared to 87.7 billion on 31 December 2014. The increase reported over the quarter lies mainly in mortgage loans. The exposures referring to the "Leasing"[2] sector on 31 March 2015 added up to 6.6 billion, down compared to 6.7 billion at year-end 2014 and to 7.4 billion on 31 March 2014. The loan growth net of leases was driven by the strong pick-up of loan disbursements

[2] Sum of exposures referring to the scope of the former Banca Italease, being merged into Banco Popolare, and the subsidiaries Release and Italease Gestione Beni.

reported over the quarter, involving all segments (notably, the yoy growth rate is 44% for "retail", 82% for "small business" and 134% for "mid corporate").

Net Non-performing exposures (Bad, Unlikely to pay and Past Due loans) at 31 March 2015 totalled 14.1 billion, down by 2.2% compared to 14,4 billion on 31 March 2014 and by 0.9% compared to 14.2 billion on 31 December 2014. The aggregate's decline was brought about by lower new NPL inflows, which in Q1 2015 amounted to approx. 206 million compared to 869 million reported in Q1 2014. Also net NPEs represented by exposures from the "Leasing" sector, totalling 2.6 billion, declined compared to 31 December 2014, and are mainly represented by real estate lease contracts.
Notably, net of write-downs, Group Bad loans totalled 6.2 billion, Unlikely to pay 7.6 billion, and Past Due loans 0.3 billion.
The coverage ratio for the entire NPE aggregate including bad loans being written off stood at 45.1% (on the rise compared to 44.6% on 31 December 2014 and to 37.6% on 31 March 2014). More specifically, on 31 March 2015, 58.7% of Group Bad loans had been written down or derecognized (58.8% and 54.4% on 31 December 2014 and 31 March 2014, respectively), the coverage ratio of Unlikely to pay stood at 26.5% (26.3% and 17.5% on 31 December 2014 and 31 March 2014, respectively), and that of Past Due loans came in at 16.2% (17.0% and 6.9% on 31 December 2014 and 31 March 2014, respectively).
The coverage ratio of performing loans was 0.63% compared to 0.64% on 31 December 2014 and 0.38% on 31 March 2014. Net of repos, securities lending and exposures and exposures with related parties, that are basically risk-free, the coverage ratio hits 0.72% compared to 0.73% on 31 December 2014.

Group capital ratios

Based on the phase-in rules effective on 31 March 2015, the Common Equity Tier 1 ratio (CET1 ratio), including interim Q1 profits[3], comes in at 11.9%, basically in line with 31 December 2014. The Tier 1 ratio is 12.3, again unchanged compared to 31 December 2014. The Total capital ratio instead is running at 14.4% (14.6% on 31 December 2014).
On 11 April the Shareholders Meeting of Banco Popolare approved the Banco Popolare 2014 Annual Report. Following the approval, deferred tax assets (DTAs) declined by 689.8 million as a result of their conversion in tax credits, which caused an equal decline in RWAs. Taking into account this reduction, the pro-forma CET 1 ratio at 31 March 2015 rises to 12.0%.

The estimated CET1 ratio calculated based on the rules coming into effect after the phase-in period (fully-loaded CET1 ratio) is 11.6% (11.3% at 31 December 2014). The corresponding pro-forma figure taking into account the reduction in RWAs following the conversion of DTAs in tax credits reaches 11.8%.

The Leverage ratio inclusive of Q1 net income based on the phase-in rule is 5.0%. The same ratio on a full-loaded basis is estimated at 4.8.

Following the Board resolution and the subsequent communication to the Bank of Italy and to the European Central Bank, on 30 June 2015 Banco Popolare will exercise the early redemption of AT1 instruments having a perpetual maturity, denominated "500,000 Non-cumulative Guaranteed Fixed/Floating Rate Perpetual Trust Preferred Securities" of Banca Popolare di Lodi Investor Trust III (Isin XS0223454512), representing an equal number of "Non-cumulative Guaranteed Fixed/Floating Rate Perpetual LLC Preferred Securities" issued by Banca Popolare di Lodi Capital Company III LLC.
Note that at the end of April the outstanding securities of this type were 248.2 million. The redemption will have no significant effect on the Group's liquidity position, and no prior authorization by the competent Authority is required, since at the date of redemption the liabilities under examination will no longer be eligible to be included in Own Funds. The estimated effect on the pro-forma Tier 1 capital ratio at 31 March 2015 is -23 bps (- 21 bps at Total Capital ratio level).

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[3] Under art. 26 paragraph 2 of EU Regulation no. 575/2013 of 26 June 2013 (CRR), interim or year-end profits may be included in Common Equity Tier 1 Capital (CET1) only with the prior permission of the competent authority, which grants it only if profits have been verified by the auditing firm.
The Quarterly Report as at 31 March 2015 has not been audited, therefore own funds reported to the ECB do not include profits for the period. Net of the profits reported in Q1, the CET 1 ratio at 31 March 2015 is 11.4%, the Tier 1 capital ratio runs at 11.8% and the Total capital ratio at 13.9%.

BANCO POPOLARE

Liquidity profile

At 31 March 2015, the Group confirms its excellent liquidity profile. ECB exposure totalled 11.2 billion (11.9 billion at year-end 2014). On the same date, the Group had assets eligible for refinancing with the ECB - still unencumbered to date - valued, net of haircuts, at 14.7 billion (14.2 billion on 31 December 2014), almost exclusively represented by an unencumbered portfolio of Italian Government bonds.
LCR (*Liquidity Coverage Ratio*) is in line with Basel 3 targets 3. NSFR (*Net Stable Funding Ratio*), calculated based on the most recent rules of the Quantitative Impact Study, is approx. 95%.

Operational outlook

Based on Q1 results and trusting that the long awaited economic recovery will actually materialize, it is reasonable to expect our management may continue to generate a positive profitability.

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Statement of the Manager in charge of preparing corporate financial reports

The manager in charge of preparing the corporate financial reports of Banco Popolare Società Cooperativa, Gianpietro Val, 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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The Quarterly Consolidated Report at 31 March 2015 will be made available to the public, under the law, at the head offices and at Borsa Italiana, and will also be published on the website www.bancopopolare.it as well as on the website of the authorized central storage mechanism www.emarketstorage.com.

The handouts for today's conference call for the presentation of the financial results of Gruppo Banco Popolare will be made available along the same modalities illustrated above.

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BANCO POPOLARE

Explanatory notes

For a better understanding of the information illustrated in the press release and in the attached financial statements, please note that:

1. P&L effects caused by the Purchase Price Allocation of the business combinations of Gruppo Banca Popolare Italiana and Gruppo Banca Italease

In compliance with IFRS 3, the income statement of Gruppo Banco Popolare includes the P&L effects caused by the allocation of the merger difference in the business combination with Gruppo Banca Popolare Italiana and of the price paid to acquire Banca Italease pursuant to IFRS 3 (so called Purchase Price Allocation – PPA) with respect to full financial year 2014 and the first quarter of 2015. To this respect please note that the P&L effects under examination have gradually tapered off and some of them are no longer significant, namely, the residual effect on net interest income generated by the greater value allocated to loans acquired during the merger by Gruppo Banca Popolare Italiana, and the lower value allocated to financial liabilities issued by Banca Italease. The only worth mentioning residual effects come from the amortization of intangible assets having a finite useful life recognized after the acquisition of Gruppo Banca Popolare Italiana and posted under the line item “Other operating income”. The P&L effect at 31 March 2015 was -5.9 million (-7.5 million in Q1 and Q4 2014).
The overall effect on the net consolidated income came in at -4.6 million at 31 March 2015 (-5.9 million in Q1 2014 and -34.2 million in Q4 2014).

2. Changes in consolidation scope

The following changes in consolidation scope were reported in Q1 2015:

- Merger of Banca Italease into Banco Popolare. The merger deed was signed on 9 March 2015 and the transaction, which did not give rise to any share exchange or issue of new shares by Banco Popolare, came into effect on 16 March 2015, after the registration of the merger deed in the competent Enterprise registers. The accounting and fiscal effects have been brought forward at 1 January 2015;
- In March the subsidiary Verona e Novara France was cancelled from the Paris Register of Commerce, and then removed from Gruppo Banco Popolare following the completion of the liquidation procedure. During the quarter also the liquidation procedures of Italfinance RMBS S.r.l. and the associate Alfa Iota 2002 S.r.l. were completed and finalized. These transactions did not give rise to any P&L or balance sheet effects, as the value of the stakes was already in line with the pro-rata net equity values reported in the final liquidation financial statements.

The above changes in consolidation scope do not significantly affect the comparison with 2014 data.

3. Changes to the data related to FY 2014 under comparison

In order to comply with EBA’s community rules Implementing Technical Standard (ITS), which give a definition of “Non-Performing exposures” and of “Forborne Exposures” – i.e., exposures to which concessions have been extended, the Bank of Italy on 20 January 2015 published an update of Circular no. 272, defining the new prudential criteria to be complied with for credit quality classification as of 1 January 2015.
More specifically, the former four impaired loan categories (“bad loans”, “substandard”, “past-due”, “restructured”) have been replaced by three new categories (“bad loans”, “unlikely to pay”, “past-due”), which together form the aggregate “Non-Performing Exposures” under the above mentioned EBA’s ITS. For the sake of comparison, exposures that at 31 December 2014 and at 31 March 2014 were included in the “substandard” and “restructured” loan categories have been restated as “unlikely to pay” in the report at 31 March 2015.
Moreover, the new regulation requires that “Forborne exposures” - exposures to which concessions have been extended - must mandatorily be marked off both for non-performing and performing exposures. To this regard, on 11 November 2014 Banco Popolare approved a specific policy on “Forborne exposures”, regulating the principles and criteria to identify and classify forborne exposures in compliance with EBA’s ITS rules. At the date of this Report, the organizational processes and the underlying IT procedures to identify, monitor and manage “forborne exposures” were still being implemented. As explained in the Group Annual Report as at 31 December 2014, to which you may refer for additional details, the implementation is going to be completed in financial year 2015. At the light of the work in progress, at the date of preparation of this Report the information regarding the amount of forborne exposures has not been specified.

4. Main non-recurring P&L items included in the income statements of the two periods under comparison

In compliance with the directives set forth in Consob’s Communication n. DEM/6064293 dated 28 July 2006, the effects of the main non-recurring items is highlighted in the report on operations.

In addition to amounts that have already been shown in items that by their own nature are non-recurring (e.g., profit or loss from discontinued operations), the net income of Q1 2015 has been negatively affected by the increase in book value of debt securities in issue measured at fair value as a result of the upgrade of Banco Popolare’s credit rating as compared with the end of the prior period (-12.6 million, gross of tax effect). For the same reason, the P&L of Q1 2014 had been negatively affected by 30.1 million, gross of tax effect.

The income statement as at 31 March 2015 has been penalized by impairment of real property, classified as tangible assets acquired for investment purposes, to bring their carrying amount in line with the estimated recoverable amount, for a total amount of 3.8 million (at 31 March 2014 they came in at 17.6 million). The Q1 2014 P&L had also benefitted from contingent assets on other administrative expenses of approx. 7 million.
In Q1 2015, an allowance of 17.7 million has been made to provisions for risks and charges, due to the unfavourable outcome of a tax litigation. The amount of deferred tax assets correlated to the tax losses carried forward of the merged subsidiary Banca Italease (85.1 million euro) was posted under the line-item “tax on income from continuing operations”.

5. Capital requirements regulation

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) n. 575/2013 (“CRR”) and in the Capital Requirements Directive 2013/36/EU (CRD IV”) of 26 June 2013 have come into effect, transposing the banking supervisory standards defined by the Basel Committee (Basel 3 framework) in the European Union.
The Regulation and its technical rules are directly applicable in national legislations and represent the so called “Single Rulebook”.
As part of an over-arching revision and simplification process concerning banking supervisory regulations, the Bank of Italy published the new circular no. 285 (“Supervisory Regulations for Banks”), and regulated prudential supervisory reporting procedures on an individual and consolidated basis for banks and asset management companies through the new circular no. 286 (“Instructions for preparing prudential reports for banks and asset management firms”).
In particular, Circular no. 286 defines the reporting layouts for:
1) harmonized reports: regulatory capital, credit and counterparty risks (including securitizations, Credit Valuation Adjustment and Central Counterparties (CCP)), market risks, operational risk, large exposures, mortgage loss recognition, financial position, monitoring of liquidity and leverage;
2) non harmonized reports: related parties.

Note that the new regulation defined in the “Single Rulebook” provides for a phase-in period for the gradual implementation of certain new rules. The estimated capital ratios the Group is expected to reach at the end of the ”phase-in” period are called “Basel 3 Fully-Loaded”.

The minimum capital requirements for 2015 based on the current regulation are as follows:
- minimum Common Equity Tier 1 ratio (“CET1 ratio””): 4.5% + 2.5% Capital Conservation Buffer (“CCB”);
- minimum Tier 1 ratio: 5.5% + 2.5% CCB;
- minimum Total Capital ratio: 8% + 2.5% CCB.

On 25 February, the European Central Bank (ECB) informed Banco Popolare of its final decision on minimum capital ratios to be complied with on an ongoing basis by Banco. The decision is based on art. 16 (2) (a) of EU Regulation no. 1024 of 15 October 2013 which gives the ECB the power to require institutions to hold own funds in excess of the capital requirements laid down in current regulations.
The minimum levels required by the Regulator are a Common Equity Tier 1 ratio (CET1 ratio) of 9.4% and a Total Capital Ratio of 10.5% .

6. Contributions to deposit guarantee schemes and resolution mechanisms

Through Directives 2014/49/EU (Deposit Guarantee Schemes Directive – DGS) of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - BRRD) of 15 May 2014, and through the establishment of the Single Resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), the European legislator introduced significant changes to the regulation of banking crises, with the strategic aim of strengthening the single market and systemic stability. These regulatory changes produced a significant impact on the financial and operating situations of banks with respect to the obligation of setting up specific funds to be financed by contributions due from credit institutions starting on financial year 2015.

6.1. – Contribution charges due to the Deposit Guarantee Schemes Directive

Directive 2014/49/EU harmonizes the protection offered by national deposit guarantee schemes (DGS) and their intervention mechanisms, to eliminate competitive distortions on the European market. To this end, the directive provides for national DGSs (in Italy the *Fondo Interbancario di Tutela dei Depositi* - FITD) to raise available financial means in proportion to the covered deposits, through mandatory contributions to be paid by credit institutions. The new element for Italian banks is the fund’s new financing mechanism, which goes from an ex-post contribution system, based on which financial means are called in when need arises, to a mixed system, whereby the available financial means must be paid in ex-ante until a minimum target level of 0.8% of the amount of the covered deposits is reached within 10 years of the coming into effect of the directive (by 3 July 2024). The contribution of each institution is calculated based on the ratio between the amount of its respective covered deposits and the country’s total amount of covered deposits. In order to reach the target level, the financial means paid by the credit institutions may include payment commitments, up to max. 30%. Said payment commitments must be collateralized by low risk assets, unencumbered by any third-party rights and at the disposal of the national DGSs. EBA shall issue guidelines on payment commitments to ensure a consistent application of the Directive.

6.2. - Contribution charges due to the Bank Recovery and Resolution Directive

Directive 2014/59/EU defines the new recovery and resolution rules to be applied as of 1 January 2015 to all the EU banks facing financial difficulties, even prospectively; said rules establish that, under certain circumstances, also the national resolution Fund may contribute to the resolution financing, to be set up by each of the 28 EU member states. To this end, according to the directive the

national resolution Funds must be provided with financial means through mandatory contributions by authorized credit institutions. Even in this case the financing mechanism is mixed. The financing means must be paid ex-ante so as to reach at least 1% of the amount of covered deposits by 31 December 2024. The contributions of each institution are calculated based on the ratio between the amount of liabilities (net of own funds and guaranteed deposits) and the total amount of liabilities of all the credit institutions authorized in the Member state. And again, in order to reach the target level, the financial means contributed by the credit institutions may include payment commitments, up to max. 30%.
The financial means raised by the national resolution Funds in 2015 will then be transferred in the Single Resolution Fund (SRF) managed by a new European resolution authority (Single Resolution Board - SRB), whose establishment is provided for by Regulation no. 806/2014 within the framework of the Single Resolution Mechanism (SRM) established by the Regulation, to come into effect on 1 January 2016.

On the date of reporting, the rules transposing the directives into national law have not been issued yet, this being one of the reasons why the procedure to recognize these charges has not been clearly defined yet. In view of this uncertainty, the corporate management had to rely on its professional judgment to define the most appropriate accounting method to recognize this event for the preparation of the Quarterly Report as at 31 March 2015. In particular, it was deemed appropriate to set aside the best estimate of the liabilities associated with the contribution commitments to the National Resolution Fund covering full year 2015. The amount charged to income for the quarter under the line item “net provisions for risks and charges” came in at 23 million euro, gross of tax effect.
With regard to the contribution charge deriving from the Deposit Guarantee Scheme Directive, at 31 March 2015 no allocation has been booked because the Directive is going to be transposed into national law by 3 July 2015 and the Italian DGS (*Fondo Interbancario di Tutela dei Depositi*) formally notified member banks that for 2015 only the contribution referring to the second half of 2015 will be called in.

The adopted interpretation choices are explained in greater detail in the Quarterly Report.
Note that the amount of the actual contribution that will be required of Banco Popolare by the National Resolution Authority for financial year 2015 may differ also tangibly from the amount charged to income in the first quarter, as a result of the more up-to-date data on the amount of liabilities, of own funds and covered deposits, and the adjustment of the contribution due based on the relative risk of the various banks, etc..
More in general, and thus also with respect to the contribution requested by the Italian DGS (*Fondo Interbancario di Tutela dei Depositi*), please note that the contributions to be charged to income for the full year may vary - even materially - depending on the possible different interpretations on how to account for and recognize the events under examination.

7. Other explanatory notes

The Consolidated Quarterly Report reflects on a consolidated basis the financial accounts of Banco Popolare and its subsidiaries with respect to 31 March 2015, or, when not available, to the most recently approved financial reports.
Similarly, the equity method-based treatment of associates was carried out based on the accounting information as at 31 Mach 2015, or, if not available, the most recent financial reports prepared by the associates.

The Q1 2015 “normalized” result was calculated by adjusting the loss for the period, totalling 209 million, to account for the following items:

- effects from the Purchase Price Allocation of the business combinations of the Banca Popolare Italiana and Banca Italease groups (positive adjustment to offset a total negative contribution of 4.7 million);
- effects from the fair value changes of debt securities in issue due to credit rating changes (positive adjustment to offset a total negative contribution of 8.4 million);
- effects from the fair value changes of debt securities in issue due to credit rating changes (positive adjustment to offset a total negative contribution of 2.2 million);
- effects from the recognition of provisions for risks and charges due to the unfavourable outcome of a tax litigation of a subsidiary (positive adjustment to offset a total negative contribution of 12.2 million);
- effects from the positive P&L impact on the line item income tax on continuing operations due to the recognition of deferred tax assets related to the tax losses carried forward of Banca Italease (negative adjustment to offset a total positive contribution of 85.1 million).

Attachments

- Reclassified consolidated balance sheet
- Reclassified consolidated income statement
- Reclassified consolidated income statement: quarterly evolution

BANCO POPOLARE

Reclassified consolidated balance sheet

Reclassified assets (in euro thousand)	31/03/2015	31/12/2014	Chg.	
Cash and cash equivalents	524,126	619,529	(95,403)	(15.4%)
Financial assets and hedging derivatives	29,120,427	26,190,599	2,929,828	11.2%
Due from banks	3,852,918	5,058,816	(1,205,898)	(23.8%)
Customer loans	80,834,608	79,823,603	1,011,005	1.3%
Equity investments	1,086,237	1,061,412	24,825	2.3%
Property and equipment	2,116,485	2,139,962	(23,477)	(1.1%)
Intangible assets	2,049,414	2,049,912	(498)	(0.0%)
Non-current assets held for sale and discontinued operations	104,036	94,308	9,728	10.3%
Other assets	6,057,392	6,043,545	13,847	0.2%
Total	**125,745,643**	**123,081,686**	**2,663,957**	**2.2%**

Reclassified liabilities (in euro thousand)	31/03/2015	31/12/2014	Chg.	
Due to banks	18,536,295	17,383,317	1,152,978	6.6%
Due to customers, debt securities issued and financial liabilities designated at fair value	85,701,335	86,513,468	(812,133)	(0.9%)
Financial liabilities and hedging derivatives	7,749,725	6,650,235	1,099,490	16.5%
Liability provisions	1,294,114	1,281,459	12,655	1.0%
Other liabilities	3,977,523	3,176,858	800,665	25.2%
Minority interests	67,936	12,130	55,806	460.1%
Shareholders' equity	8,418,715	8,064,219	354,496	4.4%
- Capital and reserves	8,209,934	10,010,110	(1,800,176)	(18.0%)
- Net income (loss) for the period	208,781	(1,945,891)	2,154,672	
Total	**125,745,643**	**123,081,686**	**2,663,957**	**2.2%**

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BANCO POPOLARE

Reclassified consolidated income statement

	Q1 2015	Q1 2014	Chg.
Net interest income	387,573	372,545	4.0%
Income (loss) from investments in associates carried at equity	24,646	19,358	27.3%
Net interest, dividend and similar income	**412,219**	**391,903**	**5.2%**
Net fee and commission income	422,270	371,676	13.6%
Other net operating income	28,336	40,632	(30.3%)
Net financial result (excluding FVO)	91,172	88,375	3.2%
Other operating income	**541,778**	**500,683**	**8.2%**
Total income	**953,997**	**892,586**	**6.9%**
Personnel expenses	(341,432)	(344,233)	(0.8%)
Other administrative expenses	(165,513)	(161,735)	2.3%
Amortization and depreciation	(32,548)	(48,765)	(33.3%)
Operating costs	**(539,493)**	**(554,733)**	**(2.7%)**
Profit (loss) from operations	**414,504**	**337,853**	**22.7%**
Net adjustments on loans to customers	(181,387)	(327,987)	(44.7%)
Net adjustments on receivables due from banks and other assets	(3,574)	(3,481)	2.7%
Net provisions for risks and charges	(43,198)	(1,493)	n.s.
Profit (loss) on the disposal of equity and other investments	(87)	967	n.s.
Income (loss) before tax from continuing operations	**186,258**	**5,859**	**n.s.**
Tax on income from continuing operations (excluding FVO)	27,038	(5,312)	n.s.
Income (loss) after tax from discontinued operations	-	(60)	n.s.
Income (loss) attributable to minority interests	3,932	672	485.1%
Net income (loss) for the period excluding FVO	**217,228**	**1,159**	**n.s.**
Fair Value Option result (FVO)	(12,621)	(30,051)	(58.0%)
Tax on FVO result	4,174	9,938	(58.0%)
FVO Impact	**(8,447)**	**(20,113)**	**(58.0%)**
Net income (loss) for the period	**208,781**	**(18,954)**	**n.s.**

BANCO POPOLARE

Reclassified consolidated income statement: quarterly evolution

	2015	2014			
	Q1	Q4	Q3	Q2	Q1
Net interest income	387,573	388,294	396,556	398,180	372,545
Income (loss) from investments in associates carried at equity	24,646	24,964	24,900	20,844	19,358
Net interest, dividend and similar income	**412,219**	**413,258**	**421,456**	**419,024**	**391,903**
Net fee and commission income	422,270	310,493	356,008	347,270	371,676
Other net operating income	28,336	26,300	38,504	33,452	40,632
Net financial result (excluding FVO)	91,172	(1,863)	23,794	105,604	88,375
Other operating income	**541,778**	**334,930**	**418,306**	**486,326**	**500,683**
Total income	**953,997**	**748,188**	**839,762**	**905,350**	**892,586**
Personnel expenses	(341,432)	(376,095)	(381,999)	(330,004)	(344,233)
Other administrative expenses	(165,513)	(135,530)	(170,855)	(176,974)	(161,735)
Amortization and depreciation	(32,548)	(86,843)	(31,043)	(25,252)	(48,765)
Operating costs	**(539,493)**	**(598,468)**	**(583,897)**	**(532,230)**	**(554,733)**
Profit (loss) from operations	**414,504**	**149,720**	**255,865**	**373,120**	**337,853**
Net adjustments on loans to customers	(181,387)	(2,496,072)	(445,323)	(292,049)	(327,987)
Net adjustments on receivables due from banks and other assets	(3,574)	(19,328)	(8,413)	(8,606)	(3,481)
Net provisions for risks and charges	(43,198)	(50,628)	2,729	9,937	(1,493)
Impairment of goodwill and equity investments	-	(239,000)	-	-	-
Profit (loss) on the disposal of equity and other investments	(87)	207	965	206	967
Income (loss) before tax from continuing operations	**186,258**	**(2,655,101)**	**(194,177)**	**82,608**	**5,859**
Tax on income from continuing operations (excluding FVO)	27,038	804,507	59,355	(56,308)	(5,312)
Income (loss) after tax from discontinued operations	-	-	121	(109)	(60)
Income (loss) attributable to minority interests	3,932	30,028	4,632	3,382	672
Net income (loss) for the period excluding FVO	**217,228**	**(1,820,566)**	**(130,069)**	**29,573**	**1,159**
Fair Value Option result (FVO)	(12,621)	(5,108)	3,427	(7,096)	(30,051)
Tax on FVO result	4,174	1,529	(1,118)	2,491	9,938
FVO net impact	**(8,447)**	**(3,579)**	**2,309**	**(4,605)**	**(20,113)**
Net income (loss) for the period	**208,781**	**(1,824,145)**	**(127,760)**	**24,968**	**(18,954)**

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