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Testo del comunicato

Vedi allegato.

NEWS RELEASE

Verona 7 August 2015

Banco Popolare approves the Consolidated Half-Yearly Report as at 30 June 2015

The Group closed the first half of the year with a net income of 293 million (290 million net of the Fair Value Option).

Operating performance showing a marked improvement:

- *Total income at 1,814 million up by 1.2% compared to 30 June 2014;*
- *Core revenues at 1,609 million un by 3.2% compared to 30 June 2014;*
- *Operating costs at 1,069 million down by 1.4% compared to 30 June 2014;*
- *Strong decline in the cost of credit at 375 million, corresponding to 85 basis points p.a., compared to 137 basis points in 1H 2014.*

Normalized net income for the period at *245 million.*

Capital position [1]:

- *"Phase-in" CET 1 ratio: 12.2%;*
- *Pro-forma "phase-in" CET 1 ratio: 12.8%;*
- *"Fully-loaded" CET 1 ratio: 11.3%;*
- *Pro-forma "fully-loaded" CET 1 ratio: 12.4%.*

Liquidity profile*:*

- *LCR well above the Basel 3 fully-loaded target of 100%;*
- *NSFR calculated along the most recent rules of the Quantitative Impact Study at approx. 95%.*

Credit Risk*:*

- *Marked reduction in non-performing loan net inflows: -66.1% compared to 1H 2014;*
- *311 million decline in gross non-performing loan stock compared to year-end 2014: -1.4%;*
- *Strengthened NPL coverage ratio: 44.9% compared to 44.6% at 31 December 2014.*

[1] Capital ratios have been calculated inclusive of the 1H net income.
"Pro-forma" capital ratios have been calculated taking into account the following events that to date have already occurred or are currently underway: 1) increase in the AFS reserves reported on 31 July 2015 compared to 30 June 2015 caused by rising stock prices after the "Grexit" risk subsided; 2) prudential estimate of the impact from the planned sale of the stake held in Istituto Centrale delle Banche Popolari Italiane, whose finalization is subject to prior authorization requirements.

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In today's meeting, the Board of Directors of Banco Popolare has approved the Consolidated Half-yearly Report as at 30 June 2015.
Having completed the corporate reorganization with the merger of the subsidiary Banca Italease into Banco Popolare in the first quarter, the Group focused on its core business, generating a total income of 1,814 million (+1.2% compared to 1,793 million in 1H 2014) in a context still marked by a difficult backdrop.
The increase in revenue-generating capacity is all the more evident if based on the core revenues aggregate, represented by net interest income, net commissions and operating income, totaling 1,609 million, up by 3.2% compared to 1,559 million in 1H 2014. The favorable revenue dynamic was sustained by an additional 1.4% decline in operating costs, which amounted to 1,069 million compared to 1,084 million in the same period of 2014.
Thus profit from operations, totaling 745 million, grew by 5% from 709 million in 1H 2014, and the cost income ratio stood at 58.9% compared to 60.5% in the same period last year.
Net income for the period benefitted from the slowdown of NPL inflows, driving the cost of credit down (375 million compared to 620 in 1H 2014), as well as from the positive effect on income tax produced by the recognition of DTAs (deferred tax assets) related to past tax losses of the acquired company Banca Italease (+85 million). The operating performance however has 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 dating back to 2006 (-18 million), as well as by the recognition of a financial asset impairment of 26 million.
Net of the positive effect of the "fair value option" (FVO), totaling 3 million, net income for the period added up to 290 million (+31 million at 30 June 2014). Including the FVO effect, the first half of the year closed with a net income of 293 million.

Operating performance

Net interest income stood at 789.1 million, up by 2.7% compared to the same period last year (768.4 million), with a Q2 contribution (402.0 million) up by 3.8% over Q1 (387.1 million).This upturn was driven by the funding cost policy, aiming at reducing the cost of wholesale and retail funding by focusing on less expensive funding forms and cutting back on the bond component.
Income from equity method investments came in at 61.3 million, with a Q2 contribution of 36.7 million compared to 24.6 million in Q1. The positive contribution to 1H 2015 was mainly driven by the equity stakes held in Agos Ducato (+39.8 million against a contribution of +11.8 million reported in 1H 2014), in Popolare Vita (+15.7 million compared to +23.5 million at 30 June 2014), in Avipop Assicurazioni (+2.6 million compared to +4.9 million in 1H 2014).
As a result of the above dynamics, **net interest, dividend and similar income** came in at 850.4 million, up by 5.2% from 808.6 million in 1H 2014.
Net commissions stood at 771.1 million, up by 7.7% compared to 716.3 million in 1H 2014, with a Q2 contribution of 350.2 million in line with FY 2014's quarterly average (344.9 million). The 1H contribution was achieved thanks to the growth in commissions from management, brokerage and advisory services, which came in at 414.9 million, up by 14.7% compared to 361.7 million in 1H 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 48.8 million, reporting a significant decline compared to 73.9 million reported in 1H last year (20.3 million in Q2 2015). The reduction 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 the change in Banco's credit rating, FVO in 1H 2015 had a positive effect of 4.2 million (+2.8 million after tax), showing however an opposite trend in the two quarters, as a negative Q1 contribution of 12.6 million was countered by a positive contribution of 16.8 million in Q2. In 1H 2014 the contribution had been negative and it amounted to 37.1 million (-24.7 million after tax).
The **net financial income excluding FVO** came in at 143.3 million compared to 194.1 million in 1H 2014. In spite of the negative performance of financial markets in the second quarter caused by the deterioration of the Greek crisis, the contribution for the period was positive, and it came in at 50.3 million

compared to 93.0 million in Q1 2015. The subsidiary Banca Aletti contributed to the half-year result with 63.5 million. The management of the Parent company's securities portfolio and treasury generated a positive contribution in 1H of 79.8 million, down from 90.3 million in 1H 2014 due to the smaller contribution from the fixed income portfolio, in particular from Italian government bonds (-0.9 million in 1H 2015 compared to +17.8 million at 30 June 2014).

Other operating income (other than net interest, dividend and similar income) therefore added up to 963.2 million compared to 984.2 million at 30 June 2014 (-2,1%). **Total income** (interest, dividend and similar income + other operating income) came in at 1,813.6 million compared to 1,792.8 million at 30 June 2014 (+1.2%). Core revenues, resulting from the sum of net interest income, net commission income and other revenues, added up to 1,609.0 million, up by 3.2% compared to 1,558.6 million in 1H 2014 and by 6.4% compared to 1,511.9 million in 2H 2014.

Personnel expenses stood at 682.6 million, reporting a 1.5% increment compared to 672.3 million at 30 June 2014. The Q2 2015 contribution of 342.2 million includes 11.6 million charges related to the solidarity fund. Net of the latter non-recurring item, personnel expenses in 1H 2015 declined by 0.2%. The total headcount at 30 June 2015 was 16,949 FTE employees, compared to 17,147 employees at 31 December 2014 and 17,134 at 31 March 2015 (data adjusted for comparison).

The stringent cost control affected also **other administrative expenses,** which on 30 June 2015 added up to 327.6 million, down by 3.0% compared to 337.7 million in 1H 2014, which had been benefitted by a non-recurring item of 7.0 million. On a comparative basis, these expenses declined by 5.0%. **Depreciation and amortization** for the period amounted to 58.8 million compared to 73.9 million at 30 June 2014. The strong decline is due to the fact that the 1H 2014 data included a non-recurring impairment of -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. Net of non-recurring items, the adjustments under examination reported an increase of 3.7% compared to 1H 2014.

As a result, total **operating costs** came in at 1,069.0 million, down by 1.4% compared to 1,083.9 million in 1H 2014. Stripping both half-years under comparison of the above non-recurring items, the aggregate reported a reduction of 3.7%. The cost/income ratio for the period, namely the ratio between total operating expenses net of non-recurring elements, and total operating income net of the change in credit rating, comes in at 58.3%.

Profit from operations totaled 744.6 million, up by 5.0% compared to 709.0 million in 1H 2014. Even net of the non-recurring items included in operating costs, the aggregate is still confirming its positive trend.

Net write-downs on customer loan impairments stood at 375.3 million compared to 620,0 million in 1H 2014, thanks to the reduction in net new NPL inflows, which in 1H 2015 dropped to 509 million from 1,500 million in 1H 2014. The "Leasing" component (represented by the Leasing Division of Banco Popolare and by the subsidiary Release Spa) amounted to 72.6 million (24.7 in Q1 2015). The **cost of credit**, measured as the ratio between net loan write-downs and gross loans, came in at 85 b.p. p.a., compared to 137 b.p. reported in the same period last year, but still within the lower end of the 80-100 b.p. range expected for the current year.

25.9 million worth of **net write-downs on impairment of other assets** were charged to income (12.1 million in 1H 2014).

Net provisions for risks and charges totaled 49.6 million, compared to a write-back of 8.8 million in 1H 2014, and 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 unfavorable decision of the Court of Cassation which overturned the favorable 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** totaled 4.0 million, generated by the sale of own property.

Income before tax from continuing operations came in at 289.8 million compared to 86.8 million in 1H 2014.

Income tax from continuing operations at 30 June 2015 posted a credit of +3.2 million (-61.2 million at 30 June 2014), as it includes the positive effect from the recognition of deferred tax assets associated to past tax losses 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.

The **loss on discontinued operations** of 7.8 million mainly refers to the assets and liabilities of the subsidiary BP Luxembourg, which are going to be disposed of, and which, in compliance with the relevant accounting standard, have been measured at fair value net of the estimated selling costs and charges, as it is lower than the book value.

Considering the attribution to minority interest of the share of loss of 5.1 million of the subsidiary Release, and the FVO impacts described above (+2.8 million after-tax), 1H 2015 closed with a **net income for the period** of 293.1 million, compared to 6.0 million in 1H 2014.

Evolution of key balance sheet items

At 30 June 2015, **direct funding** came in at 83.8 billion, down by 3.2% from 86.5 billion at 31 December 2014 and by 2.3% from 85.7 billion at 31 March 2015. On a like-for-like basis (stripping the direct funding of BP Luxembourg under disposal from the 30 June 2014, 31 December 2014 and 31 March 2015 data) direct funding reported a decline of 1.7% year-to-date, and of 0.7% compared to 31 March 2015. The year-on-year reduction was 1.9%. The fall in direct funding is mainly attributable to the decline in bond-based funding as part of the strategy to contain overall funding costs, as well as to customers' growing propensity towards other investment products.
Note that the decline in direct funding was largely offset by the stable funding generated by the stock of certificates issued by the Group, which at 30 June 2015 had a nominal value of 4.6 billion. This aggregate reported a nominal 1.9 billion growth yoy.

At 30 June 2015, **indirect funding** added up to 71.1 billion, up by 6.9% compared to 66.5 billion at year-start and 6.5% compared to 66.8 billion at 30 June 2014. Compared to 31 March 2015 instead it went down by 3.2%. Again on a like-for-like basis, (stripping the indirect funding of BP Luxembourg and other reclassifications involving Eurovita managed assets from the December and June 2014 and the March 2015 data), the same variations amounted to +8.3%, +7.8% and -2.1%, respectively.
The yoy increase (on a like-for-like basis) was driven by both assets under management, totaling 35.3 billion at 30 June 2015 (+18.4%). Assets under administration, with 35.8 billion, reported a little dip (-0.9%). The growth in AuM was mainly driven by the marked development of the Mutual Funds and Sicav compartment (+28.6%) and by insurance policies (+2.4%). Also the year-to-date increase of 8,3% on a like-for-like basis has been driven by the asset management business (+12.2%), thanks to the Mutual Funds and Sicav compartment, which in the first six months grew by 17.5%, strengthening the positive trend which had started in 2014. The 2.1% decline over the quarter was caused by a fall in administered assets, which were affected by the negative market performance as of June 2015.

At 30 June 2015, **gross loans** amounted to 87.9 billion, down by 2.6% compared to 90.2 billion at 30 June 2014, yet up by 0.3% compared to 87.7 billion at 31 December 2014. The increase reported in the first six months of the year, amounting to 0.3 billion, was driven by the large number of new medium/long term loans, which over the period grew by more than 97% over 1H 2014, cutting across all the main core segments. The decline reported in Q2 2015 (-0.7 billion) was caused by the fewer repo transactions, and by the run-off of the Leasing Division loan portfolio. The exposures referring to the "Leasing"[2] sector at 30 June 2015 added up to 6.4 billion, down from 6.7 billion at year-end 2014 and from 7.2 billion at 30 June 2014.

Net non-performing exposures (bad, unlikely to pay and past due loans) at 30 June 2015 totaled 14.1 billion, down by 4.0% and by 1.0% compared to 14.7 billion at 30 June 2014 and to 14.3 billion at 31 December 2014. The aggregate's decline was brought about by lower new NPL net inflows, which in 1H 2015 amounted to approx. 509 million (206 million in Q1) compared to 1,500 million in 1H 2014 (869 million in Q1 2014). Also net NPEs represented by exposures from the "Leasing" sector, totaling 2.6 billion, went down compared to 31 December 2014, and are mainly represented by real estate lease contracts.
Notably, net of write-downs, Group bad loans totaled 6.3 billion, unlikely-to-pay 7.5 billion, past-dues 0.3 billion.
The coverage ratio for the entire NPE aggregate including bad loans being written off stood at 44.9% (up compared to 44.6% at 31 December 2014 and to 37.8% at 30 June 2014). More specifically, at 30 June 2015, 58.1% of Group bad loans had been written down or derecognized (58.8% and 54.4% at 31 December 2014 and at 30 June 2014, respectively), the coverage ratio of unlikely to pay stood at 26.8% (26.3% and 17.8% at 31 December 2014 and at 30 June 2014, respectively), and that of past dues came in at 15.3% (17.0% and 7.1% at 31 December 2014 and at 30 June 2014, respectively).
The coverage ratio of performing loans was 0.60% compared to 0.64% at 31 December 2014 and to 0.38% at 30 June 2014. Net of repo and securities lending exposures and exposures with related parties, that are basically risk-free, the coverage ratio hits 0.68% compared to 0.74% at 31 December 2014.

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

BANCO POPOLARE

Group capital ratios

Based on the phase-in rules effective on 30 June 2015, the Common Equity Tier 1 ratio (CET1 ratio), including interim 1H profits[3], comes in at 12.2%, up compared to both March 2015 (11.9%) and December 2014. The Tier 1 ratio is running at 12.2%, down from 12.3% at 31 March 2015 as a result of the redemption of Additional Tier1 capital instruments totaling 201 million[4]. The Total capital ratio instead is at 14.2%, down compared to 14.4% at 31 March 2015.

The estimated CET1 ratio calculated based on the rules coming into effect after the phase-in period (fully-loaded CET1 ratio) is 11.3%, down from 11.6% at 31 March 2015. The reduction was exclusively ascribable to the decline in positive AFS reserves (positive component CET 1 capital) reported at the end of the first half as a result of declining stock prices triggered by the deterioration of the Greek crisis.

To this respect, after the end of the first half-year, since the "Grexit" risk subsided, the fair value of the above mentioned financial assets reported a marked rebound, which caused most of the positive AFS reserves that had been removed at the end of June to be reinstated. Including the estimated increase in AFS reserves reported at the end of July over the end of June, as well as the effect of the sale of the stake held in Istituto Centrale delle Banche Popolari Italiane, the pro-forma CET1 ratio climbs up to 12.8% under the phase-in regime, and to 12.4% on a fully-loaded basis.
Note, that after the end of the first six months of the year, the issue of nominal 500 million Tier 2 Capital instruments was finalized. Including also this issuance, the pro-forma Total capital ratio reaches 16.0% on a phase-in basis, and 15.7% on a fully-loaded basis.

The Leverage ratio inclusive of 1H net income based on the phase-in rule is 5.0%. The same ratio on a fully-loaded basis is estimated at 4.6%.

Liquidity profile

At 30 June 2015 the Group confirms its excellent liquidity profile. ECB exposure totaled 12.9 billion (11.2 and 11.9 billion at 31 March 2015 and at year-end 2014, respectively). On the same date, the Group had assets eligible for refinancing with the ECB - still unencumbered to date - valued, net of haircuts, at 14.2 billion (14.7 and 14.1 billion at 31 March 2015 and at 31 December 2014, respectively) almost exclusively represented by an unencumbered portfolio of Italian Government bonds.
LCR (*Liquidity Coverage Ratio*) is well above the fully-loaded Basel 3 target. NSFR (*Net Stable Funding Ratio*), calculated based on the most recent rules of the Quantitative Impact Study, is approx. 95%.

Operational outlook

In the light of the results reported in the first half of the year, we expect a strengthening of our positive ordinary operating performance. A significant positive contribution to the year's operating result should come from the stake held in Istituto Centrale delle Banche Popolari (ICBPI). Based on a valuation of ICBPI running at Euro 2,000 million, we can estimate the recognition of a gain on disposal of approx. 140

[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 requires profits to be verified by the auditing firm.
The Half-yearly Report as at 30 June 2015 was subject to a limited audit. The audit firm issued today their report, which contained no remark.
Today, in compliance with the above mentioned regulation, Banco Popolare has sent a specific notification to the European Central Bank communicating our intention to include the full net income accrued as at 30 June 2015 into CET1.

[4] Following the resolution passed by the Board of Directors and the subsequent notification to the Bank of Italy and to the European Central Bank, on 30 June 2015 Banco Popolare redeemed before maturity the Additional Tier 1 instruments "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.

million Euro, net of tax effect. Please note, that the finalization of the sale is subject to the prior authorization of competent authorities.
The above sale will ensure a positive contribution also in terms of Group capital strength. It is undoubtedly going to represent a counterpoise to the possible growth in risk-weighted assets as a result of the revision of the PD and LGD parameters used to assess credit risk based on internal models. To this regard, Banco Popolare has already filed the “model change” application with the competent authorities and is awaiting to receive the validation from the ECB Joint Supervisory Team.

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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 Consolidated Half-yearly Report at 30 June 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 is available in the “Investor Relations” section of the website www.bancopopolare.it.

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 half 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 effect on the P&L income before-tax on continuing operations at 30 June 2015 was -11.9 million (-6.0 and -5.9 million respectively in Q1 and Q2 2015 and -16.2 in 1H 2014).
The overall effect on the net consolidated income came in at -9.3 million at 30 June 2015 (-4.6 million in Q1 2015 and -10 million in H1 2014).

2. Changes in consolidation scope

The following changes in consolidation scope were reported in 1H 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. In Q1 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 30 June 2014 were included in the "substandard" and "restructured" loan categories have been restated as "unlikely to pay" in the report at 30 June 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. In the first half of 2015 the organizational processes and the underlying IT procedures to identify, monitor and manage "forborne exposures" were implemented, based on the entry and exit criteria established in the mentioned rule. Moreover, in 1H 2015 activities to further hone the criteria to identify the scope of exposures to which concessions had been extended in prior financial years were carried on, and should be completed in time to prepare the annual report as at 31 December 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.

For the sake of comparison, the income statement as at 30 June 2014 has been changed to retroactively reflect, pursuant to IFRS 5, the effects related to assets and associated liabilities referable to the subsidiary Banco Popolare Luxembourg S.A., whereby, in Q2 2015, the necessary conditions have occurred to classify them as disposal groups. Notably, the positive contribution to the consolidated income statement of the above mentioned assets and liabilities, amounting to +1.2 million, which in the Half-yearly Report as at 30 June 2014 was posted across various P&L items as a result of the "line-by-line" consolidation, has been restated under the single P&L item "Gain (Loss) after tax on disposal of discontinued operations".

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 1H 2015 has been benefitted by the decline in book value of debt securities in issue

measured at fair value as a result of the change in Banco Popolare's credit rating as compared with the beginning of the year (+4.2 million, gross of tax effect). For the same reason, the P&L of 1H 2014 had been negatively affected by 37.1 million, gross of tax effect.
The 1H income statement has been penalized by non-recurring charges posted under "personnel expenses", referring to 11.6 million worth of contribution charges to the sector solidarity fund.
The Q1 2015 income statement had been penalized by the 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 30 June 2014 they came in at 17.6 million). In Q2 2015, the above property was sold, and the adjustments charged to income in Q1 have been eliminated and replaced by the recognition of a loss of equal amount under the restated P&L item "loss on sale of equity and other investments". Note that conversely the 1H 2014 P&L had benefitted from contingent assets on other administrative expenses of approx. 7 million.
In 1H 2015, an allowance of 17.7 million has been made to provisions for risks and charges, due to the unfavorable outcome of a tax litigation. The amount of deferred tax assets correlated to past tax losses 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: 6% + 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.
On 28 May 2015, EBA published a document containing the guidelines on payment commitments to be complied with 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.

At the date of this Consolidated Half-yearly Report, 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 and definitely 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 already for the preparation of the Quarterly Report as at 31 March 2015. In particular, on that occasion 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 first quarter under the line item "net provisions for risks and charges" came in at 23 million euro, gross of tax effect. Since no new elements emerged compared to the date of the Quarterly Report as at 31 March, the same unchanged estimate was used for the preparation of the Half-yearly Report as at 30 June 2015.
With regard to the contribution charge deriving from the Deposit Guarantee Scheme Directive, at 30 June 2015 no allocation has been booked. The Directive is still in the process of being transposed into national law, 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 Consolidated Half-yearly Report as at 30 June 2015.
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 half, 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. <u>Other explanatory notes</u>

The Consolidated Half-yearly Report reflects on a consolidated basis the financial accounts of Banco Popolare and its subsidiaries with respect to 30 June 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 30 June 2015, or, if not available, the most recent financial reports prepared by the associates.

The 1H 2015 "normalized" result, amounting to 245.1 million, was calculated by adjusting the income for the period, totaling 293.1 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 9.3 million);
- effects from the fair value changes of debt securities in issue due to credit rating changes (negative adjustment to offset a total positive contribution of 2.8 million);
- effects from the recognition of solidarity fund charges under personnel expenses (positive adjustment to offset a total negative contribution of 8.4 million);
- effects from the recognition of adjustments to the loss on disposal of property investments (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 unfavorable 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 past tax losses of Banca Italease (negative adjustment to offset a total positive contribution of 85.1 million);
- effects from the loss generated by discontinued operations (positive adjustment to offset a total negative contribution of 7.8 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)	30/06/2015	31/12/2014	Changes	
Cash and cash equivalents	548,788	619,529	(70,741)	(11.4%)
Financial assets and hedging derivatives	28,370,603	26,190,599	2,180,004	8.3%
Due from banks	4,393,079	5,058,816	(665,737)	(13.2%)
Customer loans	80,272,267	79,823,603	448,664	0.6%
Equity investments	1,084,621	1,061,412	23,209	2.2%
Property and equipment	2,129,839	2,139,962	(10,123)	(0.5%)
Intangible assets	2,049,099	2,049,912	(813)	(0.0%)
Non-current assets held for sale and discontinued operations	134,747	94,308	40,439	42.9%
Other assets	6,038,058	6,043,545	(5,487)	(0.1%)
Total	**125,021,101**	**123,081,686**	**1,939,415**	**1.6%**

Reclassified liabilities (in euro thousand)	30/06/2015	31/12/2014	Changes	
Due to banks	17,726,413	17,383,317	343,096	2.0%
Due to customers, debt securities issued and financial liabilities designated at fair value	83,762,304	86,513,468	(2,751,164)	(3.2%)
Financial liabilities and hedging derivatives	7,686,745	6,650,235	1,036,510	15.6%
Liability provisions	1,244,890	1,281,459	(36,569)	(2.9%)
Liabilities associated with assets held for sale	1,828,271	-	1,828,271	
Other liabilities	4,286,607	3,176,858	1,109,749	34.9%
Minority interests	66,744	12,130	54,614	450.2%
Shareholders' equity	8,419,127	8,064,219	354,908	4.4%
- Capital and reserves	8,126,009	10,010,110	(1,884,101)	(18.8%)
- Net income (loss) for the period	293,118	(1,945,891)	2,239,009	
Total	**125,021,101**	**123,081,686**	**1,939,415**	**1.6%**

BANCO POPOLARE

Reclassified consolidated income statement

Reclassified income statement (in euro thousand)	H1 2015	H1 2014 (*)	Chg.
Net interest income	789,061	768,417	2.7%
Income (loss) from investments in associates carried at equity	61,318	40,202	52.5%
Net interest, dividend and similar income	**850,379**	**808,619**	**5.2%**
Net fee and commission income	771,085	716,287	7.7%
Other net operating income	48,824	73,860	(33.9%)
Net financial result (excluding FVO)	143,329	194,058	(26.1%)
Other operating income	**963,238**	**984,205**	**(2.1%)**
Total income	**1,813,617**	**1,792,824**	**1.2%**
Personnel expenses	(682,591)	(672,253)	1.5%
Other administrative expenses	(327,586)	(337,706)	(3.0%)
Amortization and depreciation	(58,815)	(73,915)	(20.4%)
Operating costs	**(1,068,992)**	**(1,083,874)**	**(1.4%)**
Profit (loss) from operations	**744,625**	**708,950**	**5.0%**
Net adjustments on loans to customers	(375,307)	(620,036)	(39.5%)
Net adjustments on receivables due from banks and other assets	(25,860)	(12,087)	113.9%
Net provisions for risks and charges	(49,626)	8,844	n.s.
Profit (loss) on the disposal of equity and other investments	(4,046)	1,173	n.s.
Income (loss) before tax from continuing operations	**289,786**	**86,844**	**233.7%**
Tax on income from continuing operations (excluding FVO)	3,210	(61,174)	n.s.
Income (loss) after tax from discontinued operations	(7,787)	1,008	n.s.
Income (loss) attributable to minority interests	5,131	4,054	26.6%
Net income (loss) for the period excluding FVO	**290,340**	**30,732**	**844.7%**
Fair Value Option result (FVO)	4,150	(37,147)	n.s.
Tax on FVO result	(1,372)	12,429	n.s.
FVO Impact	**2,778**	**(24,718)**	**n.s.**
Net income (loss) for the period	**293,118**	**6,014**	**n.s.**

(*) Figures of the previous periods have been adjusted to allow a homogenous comparison.

BANCO POPOLARE

Reclassified consolidated income statement: quarterly evolution

Voci del conto economico riclassificate	2015		2014 (*)			
(migliaia di euro)	Q1	Q2 (*)	Q4	Q3	Q2	Q1
Net interest income	401,969	387,092	387,500	395,996	397,068	371,349
Income (loss) from investments in associates carried at equity	36,672	24,646	24,964	24,900	20,844	19,358
Net interest, dividend and similar income	**438,641**	**411,738**	**412,464**	**420,896**	**417,912**	**390,707**
Net fee and commission income	350,204	420,881	308,996	354,441	346,218	370,069
Other net operating income	20,267	28,557	26,302	38,654	32,912	40,948
Net financial result (excluding FVO)	50,315	93,014	(1,873)	23,873	105,629	88,429
Other operating income	**420,786**	**542,452**	**333,425**	**416,968**	**484,759**	**499,446**
Total income	**859,427**	**954,190**	**745,889**	**837,864**	**902,671**	**890,153**
Personnel expenses	(342,176)	(340,415)	(375,117)	(380,994)	(329,002)	(343,251)
Other administrative expenses	(162,573)	(165,013)	(135,071)	(170,356)	(176,435)	(161,271)
Amortization and depreciation	(26,321)	(32,494)	(86,790)	(30,992)	(25,201)	(48,714)
Operating costs	**(531,070)**	**(537,922)**	**(596,978)**	**(582,342)**	**(530,638)**	**(553,236)**
Profit (loss) from operations	**328,357**	**416,268**	**148,911**	**255,522**	**372,033**	**336,917**
Net adjustments on loans to customers	(193,920)	(181,387)	(2,496,072)	(445,323)	(292,049)	(327,987)
Net adjustments on receivables due from banks and other assets	(22,286)	(3,574)	(19,328)	(8,413)	(8,606)	(3,481)
Net provisions for risks and charges	(6,428)	(43,198)	(50,878)	2,729	10,337	(1,493)
Impairment of goodwill and equity investments	-	-	(239,000)	-	-	-
Profit (loss) on the disposal of equity and other investments	(3,959)	(87)	207	965	206	967
Income (loss) before tax from continuing operations	**101,764**	**188,022**	**(2,656,160)**	**(194,520)**	**81,921**	**4,923**
Tax on income from continuing operations (excluding FVO)	(23,328)	26,538	804,788	59,461	(56,116)	(5,058)
Income (loss) after tax from discontinued operations	(6,523)	(1,264)	778	358	386	622
Income (loss) attributable to minority interests	1,199	3,932	30,028	4,632	3,382	672
Net income (loss) for the period excluding FVO	**73,112**	**217,228**	**(1,820,566)**	**(130,069)**	**29,573**	**1,159**
Fair Value Option result (FVO)	16,771	(12,621)	(5,108)	3,427	(7,096)	(30,051)
Tax on FVO result	(5,546)	4,174	1,529	(1,118)	2,491	9,938
FVO net impact	**11,225**	**(8,447)**	**(3,579)**	**2,309**	**(4,605)**	**(20,113)**
Net income (loss) for the period	**84,337**	**208,781**	**(1,824,145)**	**(127,760)**	**24,968**	**(18,954)**

(*) Figures of the previous periods have been adjusted to allow a homogenous comparison.

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