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Testo del comunicato

Vedi allegato.

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NEWS RELEASE

Verona 10 May 2016

Banco Popolare:

- **delegated powers exercised by the Board of Directors for the Capital Increase approved by Shareholders:**
  - *the total amount of the capital increase set at 1 billion euro;*
  - *the entire amount to be preemptively offered to existing Shareholders;*
- **due diligence with Banca Popolare di Milano successfully completed;**
- **verified the professional, integrity and independence requirements of the newly elected members of the Board of Statutory Auditors;**
- **approved the Consolidated Quarterly Report as at 31 March 2016.**

As part of the process aiming at finalizing the merger plan with BPM, the Group has started already in the first quarter to raise the average NPL coverage ratio in line with ECB requests, in order to reach the top level in the Italian banking system:

- *raised bad loan coverage ratio at 59.7% from 56.3% at 31 December 2015, thus driving also the average NPL coverage ratio up by two percentage points to 45.7%;*
- *684 million loan loss provisions consequently charged in the first quarter as compared to 181 million at 31 March 2015;*
- *net doubtful loan stock further down by 3.6% and 3.2% compared to 31 March and 31 December 2015;*
- *net NPL flows remain moderate (+386 million), in line with the average figure reported in the four quarters of the prior year.*

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Strong containment of operating costs both with respect to Personnel expenses (-4.4% compared to 31 March 2015) and administrative expenses (-2.9%). Excluding the contribution to be paid to the Single Resolution Fund (44.4 million entirely charged to income in Q1), operating costs added up to 516 million, down by 4.1% compared to 31 March 2015.

The market volatility in the first two months affected the dynamic of total income:

- *total income stood at 786 million, down by 17.6% compared to the same quarter of 2015, that had benefitted from an exceptional commission stream.*

The quarter closed with a net loss of 314 million, driven exclusively by the already discussed rise in the cost of credit. Had we removed from the cost of credit trend the discontinuity estimate caused by the decision to start increasing the average NPL coverage ratios, Q1 would have closed with a net income of about 38 million.

The Group reported a good commercial performance, with direct funding growing at about 82.7 billion euro and loans at 85.5 billion. Net of the negative market effect, also indirect funding (69.8 billion) would have reported a 1.3% increase over the month of December.

In spite of the negative impact from the loss for the period, the Group's capital remains well above the minimum threshold required by the ECB:

- *the "phase-in" CET 1 ratio at 31 March 2016 comes in at 12.5%*
- *the "fully-loaded" CET 1 ratio at 31 March 2016 is 11.7; considering the distribution of about Euro 100 million dividends already carried out by the main financial associates and taking into account the planned capital increase, the "phase-in" CET 1 ratio would be running at 14.9% and the "fully-loaded" CET 1 ratio at 14.4%.*

***Liquidity profile remains excellent**:*

- *LCR in excess of 160%, well above the target threshold at the end of the phase-in period;*
- *NSFR calculated based on the most recent rules of the Quantitative Impact Study, including capital-protected certificates, above 100%;*
- *unencumbered eligible assets at approx. 15.6 billion, almost entirety made up of Government bonds.*

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The Board of Directors exercised the powers conferred by Shareholders with the approval of the capital increase

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In today's meeting, under the delegated powers conferred by Shareholders who on 7 May last approved the proposed capital increase, the Board of Directors resolved to set its ceiling at Euro 1 billion, inclusive of any share premium.
The Board resolved to carry out the above mentioned capital increase by issuing ordinary shares, having no stated par value and regular dividend rights, to be offered pre-emptively to investors having the status of Banco Popolare shareholders at the starting date of subscription, pro-rated according to the number of owned shares.

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Due Diligence with Banca Popolare di Milano succesfully completed

With regard to the merger plan with BPM, please be informed that the due diligence has been completed successfully. Hence the Relative Contributions indicated in the news release published on 23 March last are confirmed.

Verified professional, integrity and independence requirements of the newly elected members of the Board of Statutory Auditors

The Board of Directors ascertained the professional, integrity and independence requirements pursuant to art. 148, paragraph 3, of T.U.F., of Mr. Marco Bronzato and Ms. Chiara Benciolini, elected standing Auditor and alternate Auditor, respectively, by Shareholders in the General Meeting held on 7 May 2016.

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Approved by the Board of Directors the Quarterly Report as at 31 March 2016

As already communicated to the market on 23 March 2016, Banco Popolare entered into a Memorandum of Understanding with Banca Popolare di Milano (BPM), for a merger between the two banking groups. The European Central Bank, upon carrying out a preliminary examination of the intentions expressed by the management of the two Groups, raised a number of binding conditions precedent to the granting of its authorization, in the light of the future importance of the new legal entity in the European financial system. Among the main conditions, the new Group is expected to build an even more solid capital position, so as to rank among the leading players in the Italian banking system, higher NPL coverage ratios in line with the top levels among Italian banks, so as to favor a gradual decline in total NPLs and the adoption of a business plan pointing at a sustainable mid-term profitability and a progressive reduction of the NPL to total loans ratio.

In order to strengthen current own funds, and in prospect the capital position of the future new Group, the Board of Directors of Banco Popolare has already resolved a capital increase of 1 billion Euro, and the deal has been approved by a large majority of its Shareholders in the General Meeting held on 7 May last.
With respect to the second request, Banco Popolare and Banca Popolare di Milano are jointly preparing the business plan of the new Group, with the aim to disclose it to the market towards the middle of this month.
As to the request to reduce the weight of NPLs, in today's meeting the Board of Directors of Banco Popolare has approved the Quarterly Report as at 31 March 2016, which is distinguished by the decision to register in the first quarter the impact deriving from an acceleration in the valuation review of Bad loans, also with the aim of identifying credit portfolios which may be earmarked for disposal in the future. This decision had a significant impact on the quarterly operating performance, closing with a negative bottom line of 314 million after charging to income net loan loss provisions of 684 million compared to 181

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in the same period last year. The above provisions are well above the coverage required by gross NPL trends, whose stock at 31 March 2016 has remained stable compared to the end of 2015 as net inflows came in at just 386 million, in line with the average quarterly trend reported in the prior year.
Moreover, the quarter was penalized by the charge to income of the entire annual contribution to the Single Resolution Fund, totaling 44 million, as well as by the negative performance of financial markets, by the decline in customer demand for investment products, which in the first two months was influenced by underperforming markets, and by the mistrust fueled by the events involving the banks under resolution procedure and by the distress of other financial players. This challenging economic environment represents the primary driver of the decline in total income (-17.6%) compared to the same period last year. As of the month of March total income is trending towards a more positive outlook.
The continued actions that have been taken to reduce operating costs, while producing tangible positive results, could however only just contain the negative impacts described above.

Operating performance

Net interest income stood at 351.5 million, reporting a decline both with respect to the same period last year (387.1 million), and to Q4 2015 (368.9 million). The Q1 2016 figure was affected by the additional significant slippage reported by Euribor rates, and the persisting strong competitive pressure on loan pricing, with an asset spread at branch level down by 1 b.p. on a quarterly basis, while the liability spread remained stable. The quarter was also affected by the lower contribution from the securities portfolio.
Income from equity method investments came in at 36.1 million, compared to 24.6 million in Q1 2015 (+41.0 million in Q4 2015). A positive contribution to the Q1 2016 result was mainly provided by consumer credit through the shareholding in Agos Ducato (+30.1 million compared to a Q1 2015 contribution of 13.6 million).
As a result of the above dynamics, **net interest, dividend and similar income** amounted to 387.7 million, down by 5.9% compared to 411.7 million in Q1 2015.
Net commissions stood at 316.8 million, down by 24.7% compared to 420.9 million in Q1 2015, which on the other hand had benefitted of exceptional selling volumes of financial products and had generated the Group's best quarterly performance ever. Q1 2016 was affected by a sluggish activity in the distribution of asset management products, in particular fund units, due to a declining demand by clients reported in the first two months of the year due to negative market events.
Other revenues added up to 23.8 million, compared to 28.6 million in the same period last year. The decline was partly due to the absence of non-recurring revenues from transactions that instead were present in Q1 2015 (3.6 million), and partly to the lower fixed commissions ("*commissioni di istruttoria veloce*") charged to customers.
The **net financial income excluding FVO**[1] came in at 57.9 million, compared to 93.0 million in Q1 2015 (+267.8 million in Q4 2015, including the capital gain on the sale of the equity stakes in ICBPI and Arca Sgr, which alone accounted for 241.0 million).
Other operating income (other than net interest, dividend and similar income) therefore added up to 398.6 million, down from 542.5 million at 31 March 2015.
Total income (interest, dividend and similar income + other operating income) came in at 786.2 million, compared to 954.2 million at 31 March 2015 (-17.6%).
Personnel expenses stood at 325.5 million, down by 4.4% from 340.4 million at 31 March 2015 (423.3 million in Q4 2015, which however included non-recurring charges related to the reduction in redundancy personnel of 82.9 million). The cost reduction was driven by the decline in average headcount (-475 FTEs

[1] The effects of credit rating changes on issued financial liabilities measured at fair value (FVO) are posted under a separate line-item of the reclassified income statement, right below income or loss from continuing operations. As a result of the deterioration of Banco's credit rating, the FVO impact in Q1 2016 generated a positive effect of 15.0 million (+10.1 million after tax). In the same period of 2015 the contribution had been negative and it amounted to 12.6 million (-8.4 million after tax).

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on a yearly basis). The total headcount at 31 March 2016 was 16,662 "*full time equivalent*" employees, compared to 16,731 employees at 31 December 2015, and 17,134 at 31 March 2015.
The stringent cost control affected also **other administrative expenses,** which, ex-SRF contribution, reported a 2.9% decline over the quarter. Gross of fund charges, administrative expenses came in at 204.6 million, up by 24.0% from 165.0 million in Q1 2015. The figure at 31 March 2016 includes the full amount of the annual contribution to be paid to the Single Resolution Fund of 44.4 million that has been charged to income. When preparing the 2015 Quarterly Report, since at that time the amount of the annual contribution due to the National Resolution Fund was unknown, an estimated amount of 23 million was charged to income for the period under provisions for risks and charges. **Depreciation and amortization** for the period amounted to 30.3 million, in line with 32.5 million at 31 March 2015, which included a non-recurring impairment (-3.8 million) 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. Similar non-recurring items included in the figure at 31 March 2016 are negligible (0.2 million).
Total **operating costs** came in at 560.5 million, compared to 537.9 million in Q1 2015. Stripping the effect of the contribution to the Single Resolution Fund from the current quarter and the non-recurring items from the same period last year, the aggregate reported a reduction of 3.4%. 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 change in credit rating, came in at 71.3% (65.6% considering operating costs net of contributions to the resolution fund).
Profit from operations totaled 225.7 million, compared to 416.3 million in Q1 2015.
Net write-downs on customer loan impairments stood at 684.4 million, compared to 181.4 million in Q1 2015. As already discussed, the cost of credit, measured as the ratio between loan loss provisions and gross loans, reported a strong discontinuity compared to the past, as a result of the decision to start raising the average NPL coverage ratios as required by the ECB as a pre-requisite for the merger with BPM. Net of the estimated additional write-downs to reach the higher coverage ratios required by the ECB, the cost of credit would come in at approx. 190 million Euro.
1.7 million worth of **net write-backs on impairment of other assets** were credited to income for the period (3.6 million write-downs charged in Q1 2015).
Net provisions for risks and charges totaled 3.4 million, compared to 43.2 million in Q1 2015, which included also the best estimate of the contribution due to the National Resolution Fund (23 million), and have been set aside to cover potential litigation costs.
Over the period, **losses on disposal of equity and other investments** totaled 0.3 million, generated by the sale of own property (-0.1 million at 31 March 2015).
The **loss before tax from continuing operations** came in at 460.7 million, compared to an income of 188.0 million reported in Q1 2015.
Income tax from continuing operations at 31 March 2016 posted a credit of 135.6 million (+26.5 million at 31 March 2015).
Considering the attribution to minority interest of the share of loss of 2.9 million and the FVO impacts (+10.1million, after tax), Q1 2016 closed with a **net loss for the period** of 313.6 million, as compared to the net income of 208.8 million in Q1 2015.

Evolution of key balance sheet items

At 31 March 2016, **direct funding** came in at 82.7 billion, up by 0.6% compared to 82.1 billion at 31 December 2015, and down by 1.9% from the 84.3 billion reported at 31 March 2015. The growth reported in Q1 2016 was driven by repo transactions (+3.7 billion), and to a lesser extent by deposits and checking accounts (+0.3 billion), which more than offset the redemption of maturing bonds (-3.4 billion), which were not replaced by new issues. The yearly decline instead was due to the decline in the bond component (mainly retail) as part of the strategy to curb the overall cost of funding, in particular the term component (-1.8 billion on a yearly basis and -0.5 billion in Q1 2016). This decline was partly offset by the growth in

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less expensive components, represented by checking accounts and deposits (+5.9% YoY and +2.5% QoQ), and by the increase in repo and securities lending transactions.
Note, that the aggregate amount does not include the stable funding guaranteed by the stock of certificates issued by the Group, that at 31 March 2016 rose to 5.4 billion (+33.7% increase YoY and +1.7% in Q1 2016).

The underperforming markets have been the main driver of the drop in **indirect funding,** which added up to 69.8 billion, both compared to 71.1 billion at year-start (-1.8%), and compared to 72.6 billion at 31 March 2015 (-3.8%). Assets under management have been on the rise both on a yearly basis (+1.2%), and year-to-date (+0.6%). Therefore, the fall in the aggregate figure is exclusively attributable to assets under administration, totaling 34.3 billion (-8.5% YoY and -4.1% QoQ). Net of the market underperformance effect, indirect funding in Q1 2016 would have reported a 1.3% increase.

At 31 March 2016, **gross loans** amounted to 85.5 billion, down by 3.5% compared to 88.6 billion at 31 March 2015, yet up by 0.2% compared to 85.3 billion at 31 December 2015. Stripping out of the loan trend the non-core component, represented by the Leasing Division[2], the dynamic of repo transactions and the sale of bad loans finalized last year, the aggregate reported a decline of only 1.1% YoY, and a growth of 0.7% in Q1 2016. More than 2 billion worth of medium/long term loans were granted in the first quarter, to all customer segments (Households & Individuals 0.4 billion, Mid Corporate 0.9 billion, Small Businesses 0.5 billion, Large Corporate 0.4 billion).

Net non-performing exposures (bad, unlikely-to-pay and overdraft and past-due loans) at 31 March 2016 amounted to 13.6 billion, down by 3.6% compared to 31 March 2015, and by 3.2% compared to 31 December 2015. The aggregate's decline was driven by the slowdown in new NPL inflows, which in Q1 2016 came in at approx. 386 million, confirming the normalizing trend that had started in 2015 (the quarterly average of net inflows last year has been 342 million), but most of all by additional loan loss provisions charged to income in Q1 2016 to raise the average bad loan coverage. Net NPEs represented by loans from the "Leasing" sector remained stable compared to 31 December 2015, totaling 2.4 billion, and mainly represented by property leases.
More specifically, net of write-downs, the Group reported bad loans totaling 6.1 billion (-1.7% compared to 31 March 2015 and -5.9% compared to 31 December 2015), unlikely-to-pay loans totaling 7.3 billion (-3.5% compared to 31 March 2015 and -0.6% compared to 31 December 2015), and past-due loans totaling 0.2 billion (-41.6% compared to 31 March 2015 and -9.0% compared to 31 December 2015).
The coverage ratio for the entire NPE aggregate, including bad loans being written off, stood at 45.7%, up by two percentage points from 43.7% at 31 December 2015 (45.1% at 31 March 2015). Notably, at 31 March 2016, 59.7% of Group bad loans had been written down or derecognized (56.3% and 58.7% at 31 December 2015 and at 31 March 2015, respectively), the coverage ratio of unlikely-to-pay stood at 24.6% (25.4% and 26.5% at 31 December 2015 and 31 March 2015, respectively), and that of past-dues came in at 18.8% (20.7% and 16.2% at 31 December 2015 and 31 March 2015, respectively).
The coverage ratio of performing loans was 0.49%, compared to 0.51% at 31 December 2015 and to 0.63% at 31 March 2015, at it reflects the ever improving quality of the performing loan portfolio. Net of repos and securities lending exposures, as well as exposures with related parties, that are all basically risk-free, the coverage ratio comes in at 0.56% (0.58% at 31 December 2015).

Group capital ratios

[2] At 31 March 2016, total loans of the Leasing Division, corresponding to the sum of exposures referring to the scope of the former Banca Italease and of the subsidiaries Release and Italease Gestione Beni, amounted to 5.9 billion, reporting a stable reduction from 6.5 billion at 31 March 2015 and 6,0 billion at 31 December 2015.

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Based on the phase-in rules effective on 31 March 2016, the Common Equity Tier 1 ratio (CET1 ratio) comes in at 12.5%. The decline compared to 31 December 2015 (13.2%) is fully due to the negative result reported in Q1 2016[3] and the attendant indirect effect on the amount deductible from the CET1 capital (shareholdings in financial or lending institutions and deferred tax assets). The Tier 1 ratio, in the absence of instruments eligible to be included in AT1 capital (Additional Tier 1), is also equal to 12.5%. The Total capital ratio stands at 15.6%, compared to 15.9% at 31 December 2015.
The estimated CET1 ratio calculated based on the rules effective at the end of the phase-in period (fully-loaded CET1 ratio) runs at 11.7% (12.4% at 31 December 2015).
Considering the fewer elements deductible from CET 1 capital as a result of the distribution of roughly Euro 100million dividend by the main financial associates carried out in April, and taking into account the planned capital increase, the "phase-in" CET 1 ratio would be running at 14.9% and the "fully-loaded" CET 1 ratio at 14.4%[4].

The leverage ratio, including the net income for the quarter and based on the phase-in rules, is 4.7%. The same ratio on a fully-loaded basis is estimated at 4.4%.

Liquidity profile

At 31 March 2016, the Group confirms its excellent liquidity profile. ECB exposure totaled 12.0 billion, as at the end of FY 2015. At the same date, the Group had unencumbered eligible assets totaling 15.6 billion net of haircuts (16.1 billion at 31 December 2015), almost exclusively represented by an unencumbered portfolio of Italian Government bonds.
LCR (*Liquidity Coverage Ratio*) exceeds 160%, thus well above the Basel 3 target. NSFR (*Net Stable Funding Ratio*), calculated based on the most recent rules of the Quantitative Impact Study and including capital-protected certificates is approx. 100%.

Operational outlook

Even in the coming quarters the management will mainly focus on the implementation of the merger with BPM. To this end, the Group is poised to achieve the conditions communicated by the ECB as being the pre-requirement for the authorization to finalize the merger, including raising the NPL coverage ratio to bring it in line with the average of Italian peer banks. This approach is set to negatively affect Group profitability over the short term.

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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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[3] In accordance with the combined provisions of articles 469 and 478 of EU Regulation no. 575/2013, as confirmed by the instructions issued by the Bank of Italy for the phase-in period, 60% of losses referring to the current financial year can be deducted from CET 1 (Common Equity Tier 1 Capital), and the remaining 40% from AT1 (Additional Tier 1 capital). According to the rules effective at the end of the phase-in period, losses will be deducted completely from CET 1.

[4] The above pro-forma data do not include the impact from any greater loan loss provisions that may be recognized to bring the average NPL coverage ratios of the entity originating from the planned merger with Banca Popolare di Milano in line with the average ratios of peer Italian banks.

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Although under Legislative Decree no. 25 of 15 February 2016, published in the Official Gazette on 3 March 2016 and transposed in the Consolidated Financial Act (TUF) with resolution dated 17 March 2016, the issuers of instruments listed on regulated markets are no longer obliged to prepare and publish the quarterly reports as at 31 March and 30 September, still in order to comply with the obligation to prepare FINREP and COREP supervisory reports to be sent to the ECB by 12 May, Gruppo Banco Popolare has prepared its consolidated financial statements as at 31 March 2016. Moreover, due to the requirements associated with the 1-billion-euro capital increase approved by our Shareholders in the General Meeting held on 7 May last, it has also prepared a Consolidated Quarterly Report as at 31 March 2016, subject to a limited audit by the auditing firm Deloitte & Touche S.p.A...

The handouts for today's conference call for the presentation of the financial results of Gruppo Banco Popolare will be made available on the corporate website www.bancopopolare.it, as well as on the website of the authorized central storage mechanism www.emarketstorage.com.

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Explanatory notes

For a better understanding of the information illustrated in the news 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 (so called Purchase Price Allocation – PPA) with respect to full financial year 2015 and Q1 2016. 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 of 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 that are posted under the line item "Other operating income". The P&L effect at 31 March 2016 was -5.5 million. The overall effect on the net consolidated income at 31 March 2016 came in at -4.3 million (-4.6 million in Q1 2015).

2. Changes in consolidation scope

In Q1 2016 the only change was the final exit of the subsidiary Banco Popolare Luxembourg from the consolidation scope, as a result of the closing of the sale on 29 February 2016 after receiving the required authorizations from the competent Supervisory authorities.
The disposal of the shareholding in Aletti Suisse, entirely held by Banco Popolare Luxembourg and subsequently transferred to Banca Aletti S.p.A on 4 January 2016, was not part of the transaction scope, nor the risks and benefits tied to the loan portfolio of Banco Popolare Luxembourg, which are still borne by Banco Popolare.
The management of the subsidiary in the first two months and the closing of the above sale gave rise to no significant effect as compared to the Group financial situation at 31 December 2015.

3. 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 are highlighted in the report on operations.

The Q1 2016 net income was penalized by the impact from the decision to start right from Q1 2016 to increase the average NPL coverage ratio as part of the process, in line with ECB's requirements raised upon carrying out a preliminary examination of the planned merger between Banco Popolare and BPM. Based on currently available information, the measurement discontinuity led to the charge to income in Q1 of greater loan loss provisions totaling 495 million.
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 Q1 income statement was penalized by the impact from the decline in the book value of debt securities in issue measured at fair value as a result of Banco Popolare's credit rating changes as compared with the end of the previous period (-15.0 million, gross of tax effect). For the same reason the Q12015 P&L had reported a negative impact of 12.6 million, gross of tax effect.
The Q1 2015 P&L had been affected by the following recurring components: a) recognition of a 3.8 million impairment of property, classified as tangible investments, to adjust their book value to the estimated recoverable amount; b) provisions for risks and charges of 17.7 million to address the unfavorable outcome of a tax litigation; c) 85.1 million corresponding to the DTAs related to past tax losses incurred by the acquiree Banca Italease credited to tax on income from continuing operations.

4. Capital requirements regulation

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) no. 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".
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 2016 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.

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On 25 November, 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 level required by the Regulator is a Common Equity Tier 1 ratio (CET1 ratio) of 9.55%.

5. Contribution charges due to the Bank Recovery and Resolution Directive

With letter dated 29 April 2016, the Bank of Italy informed the banks of the Group that total contributions to be paid to the Single Resolution Fund for FY 2016 amount to 44.4 million euro. The letter refers also the possibility for intermediaries to pay up to 15% of the total contributions due with irrevocable payment commitments (IPC). The Group did not exercise this option, and it charged to income for the period the entire contribution amount to be paid in under the line-item "other administrative expenses".

6. New DTA regulations under Law Decree no. 59/2016

On 3 May 2016 Law Decree no.59/2016 was published in the Official Gazette and came into effect on the day after its publication. Among other things, the Decree includes new provisions on deferred tax assets (DTAs) in compliance with the requirements set forth by Law no. 214 of 22 December 2011 ("Law 214/2011") to turn DTAs into tax credits. On 31 December 2015 DTAs amounted to 2,445.1 million. Based on the new regulatory provisions, companies may continue to adopt the current rules on the conversion of deferred tax assets into tax credits, provided that they irrevocably exercise this option within 30 days of the publication of the Decree and pay an annual fee for each of the FYs from 2015 and following, when applicable, up until 2029. The exercise of the option is irrevocable.
As clarified in the press release of the Council of Ministers of 20 April last, this rule should overcome the doubts raised by the European Commission as to the presence of State-aid components in the current regulatory framework on the conversion of deferred tax assets into tax credits when compliant with the requirements imposed by Law no. 214/2011.
More specifically, the annual fee to be paid to convert DTAs into tax credits shall be calculated on an annual basis by applying a 1.5% rate to a "base" resulting from the sum of the difference between convertible deferred tax assets stated in the reference financial statements and the corresponding deferred tax assets stated in the 2007 financial accounts, the amount of DTA conversions carried out in 2008, up to the FY of reference, and deducting the taxes mentioned in the Decree and paid with respect to the above tax periods.
The Bank estimated the fee amount for FY 2015 for the Group at roughly 30 million euro, gross of tax effect (under the Decree, the fee can be deducted from income tax and from IRAP). This estimate was based on the current enhanced interpretation of the indications that can be directly derived from the text of the Decree, which could undergo even substantial changes depending on all possible further indications that might ensue from enacting provisions to be contained in a coming Order of the Inland Revenue under the Decree and from interpretations regarding the accounting treatment of the fee itself.

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 2016, 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 submitted to Banco Popolare as at 31 March 2016, or, if not available, the most recent financial reports prepared by the associates.

Attachments

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

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BANCO POPOLARE

BANCO POPOLARE GROUP

Reclassified consolidated balance sheet

Reclassified assets (in euro thousand)	31/03/2016	31/12/2015	Variazioni	
Cash and cash equivalents	604,189	587,383	16,806	2.9%
Financial assets and hedging derivatives	29,385,957	27,531,012	1,854,945	6.7%
Due from banks	3,029,278	2,817,832	211,446	7.5%
Customer loans	78,155,055	78,421,634	(266,579)	(0.3%)
Equity investments	1,203,124	1,166,324	36,800	3.2%
Property and equipment	2,122,719	2,132,633	(9,914)	(0.5%)
Intangible assets	2,041,533	2,042,120	(587)	(0.0%)
Non-current assets held for sale and discontinued operations	80,400	109,983	(29,583)	(26.9%)
Other assets	5,528,164	5,700,674	(172,510)	(3.0%)
Total	**122,150,419**	**120,509,595**	**1,640,824**	**1.4%**

Reclassified liabilities (in euro thousand)	31/03/2016	31/12/2015	Variazioni	
Due to banks	16,633,706	16,334,739	298,967	1.8%
Due to customers, debt securities issued and financial liabilities designated at fair value	82,673,483	82,141,444	532,039	0.6%
Financial liabilities and hedging derivatives	9,658,268	8,564,543	1,093,725	12.8%
Liability provisions	1,319,218	1,333,077	(13,859)	(1.0%)
Liabilities associated with assets held for sale	-	342,265	(342,265)	
Other liabilities	3,757,944	3,246,793	511,151	15.7%
Minority interests	49,848	53,169	(3,321)	(6.2%)
Shareholders' equity	8,057,952	8,493,565	(435,613)	(5.1%)
- Capital and reserves	8,371,527	8,063,492	308,035	3.8%
- Net income (loss) for the period	(313,575)	430,073	(743,648)	
Total	**122,150,419**	**120,509,595**	**1,640,824**	**1.4%**

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BANCO POPOLARE GROUP

Reclassified consolidated income statement

Reclassified income statement (in euro thousand)	Q1 2016	Q1 2015 (*)	Variaz.
Net interest income	351,538	387,092	(9.2%)
Income (loss) from investments in associates carried at equity	36,114	24,646	46.5%
Net interest, dividend and similar income	**387,652**	**411,738**	**(5.8%)**
Net fee and commission income	316,825	420,881	(24.7%)
Other net operating income	23,840	28,557	(16.5%)
Net financial result (excluding FVO)	57,889	93,014	(37.8%)
Other operating income	**398,554**	**542,452**	**(26.5%)**
Total income	**786,206**	**954,190**	**(17.6%)**
Personnel expenses	(325,529)	(340,415)	(4.4%)
Other administrative expenses	(204,621)	(165,013)	24.0%
Amortization and depreciation	(30,346)	(32,494)	(6.6%)
Operating costs	**(560,496)**	**(537,922)**	**4.2%**
Profit (loss) from operations	**225,710**	**416,268**	**(45.8%)**
Net adjustments on loans to customers	(684,396)	(181,387)	277.3%
Net adjustments on other assets	1,688	(3,574)	
Net provisions for risks and charges	(3,376)	(43,198)	(92.2%)
Profit (loss) on the disposal of equity and other investments	(311)	(87)	257.5%
Income (loss) before tax from continuing operations	**(460,685)**	**188,022**	
Tax on income from continuing operations (excluding FVO)	135,582	26,538	410.9%
Income (loss) after tax from discontinued operations	(1,480)	(1,264)	17.1%
Income (loss) attributable to minority interests	2,941	3,932	(25.2%)
Net income (loss) for the period excluding FVO	**(323,642)**	**217,228**	
Fair Value Option result (FVO)	15,038	(12,621)	
Tax on FVO result	(4,971)	4,174	
FVO Impact	**10,067**	**(8,447)**	
Net income (loss) for the period	**(313,575)**	**208,781**	

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

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BANCO POPOLARE

BANCO POPOLARE GROUP

Reclassified consolidated income statement: quarterly evolution

Reclassified income statement	2016	2015			
(in euro thousand)	Q1	Q4	Q3	Q2	Q1 (*)
Net interest income	351,538	368,860	387,465	401,969	387,092
Income (loss) from investments in associates carried at equity	36,114	40,958	39,203	36,672	24,646
Net interest, dividend and similar income	**387,652**	**409,818**	**426,668**	**438,641**	**411,738**
Net fee and commission income	316,825	340,184	314,141	350,204	420,881
Other net operating income	23,840	37,323	23,497	20,267	28,557
Net financial result (excluding FVO)	57,889	267,785	29,967	50,315	93,014
Other operating income	**398,554**	**645,292**	**367,605**	**420,786**	**542,452**
Total income	**786,206**	**1,055,110**	**794,273**	**859,427**	**954,190**
Personnel expenses	(325,529)	(423,317)	(327,702)	(342,176)	(340,415)
Other administrative expenses	(204,621)	(316,253)	(161,021)	(162,573)	(165,013)
Amortization and depreciation	(30,346)	(73,851)	(33,696)	(26,321)	(32,494)
Operating costs	**(560,496)**	**(813,421)**	**(522,419)**	**(531,070)**	**(537,922)**
Profit (loss) from operations	**225,710**	**241,689**	**271,854**	**328,357**	**416,268**
Net adjustments on loans to customers	(684,396)	(229,143)	(199,483)	(193,920)	(181,387)
Net adjustments on other assets	1,688	(23,171)	(5,150)	(22,286)	(3,574)
Net provisions for risks and charges	(3,376)	14,603	(15,768)	(6,428)	(43,198)
Impairment of goodwill and equity investments	-	-	-	-	-
Profit (loss) on the disposal of equity and other investments	(311)	(108)	(246)	(3,959)	(87)
Income (loss) before tax from continuing operations	**(460,685)**	**3,870**	**51,207**	**101,764**	**188,022**
Tax on income from continuing operations (excluding FVO)	135,582	72,593	(5,285)	(23,328)	26,538
Income (loss) after tax from discontinued operations	(1,480)	307	200	(6,523)	(1,264)
Income (loss) attributable to minority interests	2,941	7,684	5,869	1,199	3,932
Net income (loss) for the period excluding FVO	**(323,642)**	**84,454**	**51,991**	**73,112**	**217,228**
Fair Value Option result (FVO)	15,038	(6,295)	7,057	16,771	(12,621)
Tax on FVO result	(4,971)	2,082	(2,334)	(5,546)	4,174
FVO Impact	**10,067**	**(4,213)**	**4,723**	**11,225**	**(8,447)**
Net income (loss) for the period	**(313,575)**	**80,241**	**56,714**	**84,337**	**208,781**

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

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