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Oggetto	:	Banco Popolare has approved the consolidated half-yearly financial report at 30 June 2016.

Testo del comunicato

Vedi allegato.

BANCO POPOLARE

NEWS RELEASE

Verona, 5 August 2016

Banco Popolare has approved the consolidated half-yearly financial report at 30 June 2016.

Thanks to the completion of the rights issue, the capital position has been bolstered further:

- *the "phase-in" CET 1 ratio at 30 June 2016 came in at 14.8% (13.2% at 31 December 2015 and 12.5% at 31 March 2016);*
- *the "fully-loaded" CET 1 ratio at 30 June 2016 was 14.1% (12.4% at 31 December 2015 and 11.7% at 31 March 2016).*

The resilience and capital strength of Banco Popolare were confirmed by the results of the Stress Test exercise communicated by the EBA:

- *CET1 ratio under the Stress Test baseline scenario at 14.61%*
- *CET1 ratio under the Stress Test adverse scenario at 9.05%*

The liquidity profile continues to be excellent:

- *LCR in excess of 150%, 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 above 100%;*
- *unencumbered eligible assets at approx. 13.9 billion, almost entirety made up of Government bonds.*

The stock of gross NPLs decreases significantly:

- *gross NPLs down by 1.2bn on an annual basis (-5.6%) and by 0.5bn in the first-half;*
- *net NPLs further down by 4.3% on an annual basis and by 3.9% in the first-half.*

As part of the process aimed at completing the merger and integration plan with BPM, the Group is increasing the average NPL coverage:

- *the average bad loan coverage rose to 59.3% from 56.3% at 31 December 2015;*
- *total average NPL coverage rose to 45.6% from 43.7% at 31 December 2015.*

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Driven exclusively by the increase in the cost of credit, caused by the decisions aimed at raising the average NPL coverage as required by the ECB in view of the merger with BPM, the half-year closed with a net loss of 380 million. Without this discontinuity, the half-year would have reported a positive bottom line:

- *total income on the downturn as a result of the market performance and of falling rates;*
- *strong containment of operating costs both at the level of personnel expenses and of administrative expenses net of "systemic costs".*

Positive Group commercial performance:

- *direct funding at 83.1 billion, up by 1.2% in the first-half;*
- *loans at 86.4 billion, up by 1.2% year-to-date;*
- *managed assets, net of the underperforming market effect, grew by c. 1% in the first-half.*

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After entering a Memorandum of Understanding with Banca Popolare di Milano (BPM) for a merger between the two banking groups, as already communicated to the market in the first quarter, 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, to adopt a business plan pointing at a sustainable mid-term profitability, a progressive reduction of the NPL to total loans ratio, and at increasing the average NPL coverage, so as to favor a gradual decline in total NPLs.
In order to strengthen current own funds, and in prospect the capital position of the future new Group, Banco Popolare has already executed a 1 billion rights issue, which was completed on 1 July 2016 with the last payments.
With respect to the second request, Banco Popolare and Banca Popolare di Milano have developed and approved the new Group's business plan, which was presented to the market in May.
As to the third request, the average bad loan coverage, and more generally the NPL coverage, have been increased right from the first quarter, and in the second quarter bad loan disposals have been completed, adding up to a nominal value of more than 240 million. These decisions had a significant impact on the half-yearly operating performance, closing with a negative bottom line of 380 million, after charging to income net loan loss provisions of 980 million, compared to 375 million in the same period last year. The above provisions are well above the coverage required by gross NPL dynamics, whose stock at 30 June 2016 reported a decline both with respect to 30 June 2015, and year-to-date.
The half-year has also been penalized by the charge to income of significant "systemic costs". In addition to the full amount of the annual contribution to the Single Resolution Fund amounting to 44.3 million already posted in the first quarter, in the second quarter we also recognized the fee required to retain the right to convert deferred tax assets into tax credits. The total fee amount came in at 40.4 million, resulting from the full annual fee due for FY 2015, and the estimated fee accrued in the first half of FY 2016.
The negative performance of financial markets worsened by the additional uncertainty caused by the outcome of the Brexit referendum and the lower demand for investment products by customers, influenced also by a widespread lack of confidence fueled by the events involving the banks under resolution and by the situation facing other banking institutions, are the main drivers of the drop reported by total income compared to the same period last year. In this context, the continued actions aimed at

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reducing operating costs generated a 4.9% decline in personnel expenses and a 2.5% decline in other administrative expenses, net of "systemic costs", thus curbing the negative impacts described above.

Operating performance

Net interest income stood at 691.3 million, reporting a decline compared to the same period last year (789.1 million), with a quarterly contribution of 339.7 million, compared to 351.5 million in Q1. Both on a yearly and on a quarterly basis, the 2016 NII was affected by the continued fall in rates (the 1-month Euribor dropped 27 basis points y/y and 9 basis points q/q, and the 3-month Euribor declined by 24 and 7 basis points over the same comparative periods), by the strong competitive pressure on customer loan pricing, as well as by a declining profitability from the securities portfolio. In this context, the negative effect produced on NII by the above circumstances has been mitigated by the lower cost of wholesale funding and by the actions taken to curb the liability spread shrinkage vis-à-vis the fall in market rates. To this respect, it should be considered that Banco Popolare holds much more retail and wholesale bond-based funds than most of its market peers, with attendant effects on total costs of funding.
Income from equity method investments came in at 63.5 million, basically in line with the 61.3 million reported in the first half of 2015 (+27.4 million in Q2 2016). The positive contribution to the result recorded in the first half of 2016 was mainly driven by consumer credit, through the shareholding in Agos Ducato (+47.3 million compared to a contribution of 39.8 million in the same period of 2015).
As a result of the above dynamics, **net interest, dividend and similar income** amounted to 754.7 million, down by 11.2% from 850.4 million in H1 2015.
Net commissions stood at 639.3 million, down by 17.1% from 771.1 million in H1 2015, which however had benefitted from an exceptionally positive dynamic of the asset management business. Besides the negative market performance and the lower propensity by customers for financial investments, the commission dynamic has been penalized by the major customer service effort made by branch personnel to inform and assist customers interested in the rights issue.
Other revenues added up to 46.6 million, compared to 48.8 million in the same period last year. The decline was driven exclusively by the lack of revenues from transactions that instead had been reported in H1 2015 (4.8 million).
The **net financial income excluding FVO** [1] came in at 98.8 million, from 143.3 million in H1 2015 (+40.9 million in Q2 2016). The average quarterly performance is basically in line with that of 2015, at about 50.0 million net of capital gains on the sale of equity stakes in ICBPI and Arca.
Total income (interest, dividend and similar income + other operating income) came in at 1,539.4 million, from 1,813.6 million at 30 June 2015 (-15.1%). **Personnel expenses** stood at 648.9 million, down by 4.9%, compared to 682.6 million in the same period last year, driven by the average headcount reduction (-410 FTEs on a yearly basis). The total headcount at 30 June 2016 was 16,660 FTE employees, as compared to 16,731 employees at 31 December 2015 and 16,949 employees at 30 June 2015.
The stringent cost control affected also **other administrative expenses,** which, net of the "systemic charges" described above totaling 84.7 million, went down by 2.5% over the first half of 2015. When including also the above systemic costs, administrative expenses add up to 404.0 million, up by 23.3% from 327.6 million in H1 2015. **Depreciation and amortization** for the period amounted to 63.2 million, up from 58.8 million at 30 June 2015, and they include non-recurring write-downs (-2.0 million) to bring the book value of certain real estate assets classified as investments in line with the estimated recoverable amount based on the latest appraisals (no such write-downs were reported at 30 June 2015).
Total **operating costs** came in at 1,116.1 million, compared to 1,069.0 million in H1 2015. Net of the "systemic costs" effect, and of the non-recurring items posted in the two periods under comparison, the aggregate records a 2.6% reduction. The cost/income ratio for the period, namely the ratio between total operating expenses net of non-recurring items and of "systemic charges", and total operating income net of the change in credit rating, came in at 66.9%.

[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 H1 2016 generated a positive effect of 9.8 million (+7.1 million after tax). In the same period of 2015 the contribution had been equally positive, and it amounted to 4.2 million (+2.8 million after tax).

Profit from operations totaled 423.3 million, compared to 744.6 million in H1 2015.
Net write-downs on customer loan impairments stood at 980.4 million, compared to 375.3 million in H1 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 decisions made to raise the average NPL coverage as required by the ECB as a pre-requisite to authorize the merger with Banca Popolare di Milano.
7.4 million of **net write-backs on impairment of other assets** were credited to income for the period (-25.9 million in H1 2015).
Net provisions for risks and charges totaled 2.0 million, compared to 49.6 million in H1 2015, which included the earmarking of the best estimate of the contribution due to the National Resolution Fund (23 million), as well as provisions set aside for the unfavorable outcome of certain tax disputes (17.7 million).
The **loss before tax from continuing operations** came in at 566.2 million, as compared to an income of 289.8 million posted in H1 2015.
Income tax from continuing operations at 30 June 2016 posted a credit of 174.9 million (+3.2 million at 30 June 2015).
Considering the attribution to minority interest of the share of loss of 5.6 million, and the FVO impacts (+7.1 million, after tax), H1 2016 closed with a **net loss for the period** of 380.2 million, compared to a net income of 293.1 million in H1 2015.

Evolution of key balance sheet items

Al 30 June 2016, **direct funding** came in at 83.1 billion, up by 1.2% in the half-year from 82.1 billion at 31 December 2015 (+0.6% over the last quarter). The growth reported in H1 2016 was driven by repo transactions (+3,8 billion), and to a lesser extent by deposits and checking accounts (+0.9 billion), which more than offset the redemption of maturing bonds (-4.5 billion), which were not replaced by new issues. The good performance in H1 has thus limited the decline reported by direct funding on a yearly basis (-0.7%), driven by the decline in the bond component as part of the strategy to curb the overall cost of funding. Note that the item does not include the stable funding guaranteed by the stock of certificates issued by the Group, which at 30 June 2016 increased to 5.7 billion (+28.1% year-on-year and +8.0% in H1 2016).

The underperformance of the prices of financial instruments has been the main driver of the drop in **indirect funding,** running at 67.4 billion, both year-to-date (-5.3%) and year-on-year (-5.2%). Asset management reported more limited declines again due to the decreasing prices of financial instruments, in particular those issued by banks and more in general by the financial sector. Managed assets added up to 34.9 billion (-1.3% year-to-date and -1.0% year-on-year). Administered assets totaled 32.4 billion (-9.2% year-to-date, and -9.4% year-on-year). Net of the market underperformance effect and of a non-recurring transaction carried out by a key customer requiring the transfer of his administered assets onto another bank, indirect funding in H1 2016 would have been stable.

Al 30 June 2016, **gross loans** amounted to 86.4 billion, up by 1.2%, compared to 85.3 billion at year-start (+1.1% in Q2). The year-on-year decline (-1.7%) was driven by NPL sales and by the run-off of the Leasing Division[2]. Net of these non-core components, gross loans were stable also in comparison with 30 June 2015.
Note that in H1 2016 more than 5 billion of medium/long term loans were granted, of which 3 billion in Q2 alone (+3.4% over H1 2015). The lending activity covered all customer segments (Households & Individuals 0.9 billion, Mid Corporate 2.7 billion, Small Businesses 1.2 billion, Large Corporate and Public Agencies 0.3 billion).

[2] At 30 June 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 5.7 billion, reporting a progressive reduction from 6.4 billion at 30June 2015 and from 6.0 billion at 31 December 2015.

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Net non-performing exposures (bad, unlikely-to-pay and overdraft and past-due loans) at 30 June 2016 amounted to 13.5 billion, down by 3.9% compared to 31 December 2015, and by 4.3% compared to 30 June 2015 (-0.8% in Q2). The reduction was driven by the contained new net NPL inflows, which in Q2 2016 came in at approx. 427 million, but most of all by additional loan loss provisions charged to income in H1 2016. Net NPEs, represented by loans from the "Leasing" sector, declined compared to 31 December 2015, totaling 2.3 billion. They are mainly constituted by property leases.
More specifically, net of write-downs, the Group reported bad loans totaling 6.1 billion (-5.6% compared to 31 December 2015 and 2.8% compared to 30 June 2015), unlikely-to-pay loans totaling 7.2 billion (-1.9% compared to 31 December 2015 and -3.3% compared to 30 June 2015), past dues totaling 0.3 billion (-24.7% compared to 31 December 2015 and -53.5% compared to 30 June 2015).
The coverage ratio for the entire NPE cluster, including write-offs, stood at 45.6%, up by almost two percentage points compared to 43.7% at 31 December 2015 (44.9% at 30 June 2015). Notably, at 30 June 2016, 59.3% of Group bad loans had been written down or derecognized (56.3% at 31 December 2015 and 58.1% at 30 June 2015), the coverage ratio of unlikely-to-pay stood at 24.7% (25.4% at 31 December 2015 and 26.8% at 30 June 2015), and that of past-dues came in at 19.2% (20.7% at 31 December 2015 and 15.3% at 30 June 2015).
The coverage ratio of performing loans was 0.46%, compared to 0.51% at 31 December 2015 and to 0.60% at 30 June 2015, and it reflects the ever improving quality of the performing loan portfolio. Net of repos and securities lending exposures, as well as of exposures with related parties, that are all basically risk-free, the coverage ratio comes in at 0.52% (0.58% at 31 December 2015).

Group capital ratios

Based on the phase-in rules effective on 30 June, the Common Equity Tier 1 ratio (CET1 ratio) comes in at 14.8% (13.2% at 31 December 2015 and 12.5% at 31 March 2016). The rise reported in Q2 was mostly entirely driven by the completion of the rights issue. The Tier 1 ratio, in the absence of elements eligible to be included in AT1 capital (Additional Tier 1), is also equal to 14.8%. The Total capital ratio stands at 18.1%, compared to 15.9% at 31 December 2015 and to 15.6% at 31 March 2016.
The estimated CET1 ratio calculated based on the rules effective at the end of the phase-in period (fully-loaded CET1 ratio) runs at 14.1% (12.4% at 31 December 2015 and 11.7% at 31 March 2016).

Banco Popolare was subject to the "2016 EU-wide Stress Test" conducted by the European Banking Authority (EBA), in cooperation with the Bank of Italy, the European Central Bank (ECB), the European Commission (EC), and the European Systemic Risk Board (ESRB). Based on EBA's communication on 29 July, the exercise confirmed the resilience and capital strength of Banco Popolare also under the conditions imposed by the 2016 Stress Test scenarios. Note that, since the calculation of the following published results:

- CET1 ratio under the Stress Test baseline scenario at 14.61 %
- CET1 ratio under the Stress Test adverse scenario at 9.05 %

was based on data referring to 31 December 2015, they do not take into account the rights issue completed by Banco Popolare on 1 July 2016, which bolstered the Group's capital position further.

The leverage ratio based on the phase-in rules came in at 5.3% (4.7% at 31 March 2016). The same ratio on a fully-loaded basis is estimated at 5.0% (4.4% at 31 March 2016).

Liquidity profile

At 30 June 2016, the Group confirmed 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 13.9 billion, net of haircuts (16.1 billion at 31 December 2015 and 15.6 billion at 31 March 2016), almost

exclusively represented by an unencumbered portfolio of Italian Government bonds. The 1.7 billion drop from March 2016 was mainly driven by the increase in repo transactions.
LCR (*Liquidity Coverage Ratio*) exceeds 150%, 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 go ahead with the fulfillment of the conditions communicated by the ECB as being the pre-requirement for the authorization to finalize the merger. Having completed the rights issue on 1 July 2016, the only other remaining condition is to further increase the NPL coverage to bring it in line with the average of Italian peer banks. This approach will 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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The Consolidated Half-yearly Report as at 30 June 2016 will be made available to the public, under the law, at the head offices and at Borsa Italiana, as well as on the corporate website www.bancopopolare.it and 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 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 under the above standard (so called Purchase Price Allocation – PPA). To this respect please note that the P&L effects under examination have gradually tapered off and some of them are no longer significant. 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 30 June 2016 was -10.9 million (-11.9 million at 30 June 2015).
The overall effect on the net consolidated income at 30 June 2016 came in at -8.6 million (-9.3 million in H1 2015).

2. Changes in consolidation scope

In H1 2016 the only change was the final exit of the subsidiary Banco Popolare Luxembourg from the consolidation scope, as a result of the sale closed on 29 February 2016. 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.
On 1 June the merger of Tiepolo Finance 2 S.r.l. into the Parent Company took legal effect. The merged company has been cancelled from the Banking Group with no effects on the Group’s P&L or equity accounts.
Finally, the liquidation procedure of the associate Borgo del Forte S.r.l., which was previously accounted for under the equity method, was completed in April.

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 no. DEM/6064293 dated 28 July 2006, the effects of the main non-recurring items are highlighted in the report on operations.

The H1 2016 net income was penalized by the impact from the decisions aimed at increasing the average BPL coverage required by the ECB as a pre-requisite for the authorization by the Regulator of the merger plan with Banca Popolare di Milano.
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 H1 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 (+9.8 million, gross of tax effect). For the same reason the H1 2015 P&L had reported a positive impact of 4.2 million, gross of tax effect.
The line-item “other administrative expenses” includes the annual fee to be paid to be retain the right to convert “Eligible DTAs” into tax credits. The new regulation was introduced in the current year and is better explained under bullet point 6, below. It is a retroactive measure, requiring the payment of the fee also for FY 2015. The amount of this systemic fee charged to income in H1 2016 but actually accrued in the prior year totals 27.1 million, gross of tax effect.
Finally, the H1 2016 P&L has been negatively impacted by the impairment totaling 2.0 million of certain real estate assets, classified as tangible assets purchased for investment purposes, so as to bring their book value in line with the estimated recoverable value. For the same reason, the 1H 2015 P&L had reported a negative impact of 3.8 million at 30 June 2015, recognized – as a result of the disposal of the property – under the line-item “Gain/loss on the disposal of equity and other investments”.
Moreover, the 1H 2015 P&L had been affected by the following non-recurring items: a) 11.6 million of charges for the employee redundancy fund; 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 are as follows:

- minimum Common Equity Tier 1 ratio ("CET1 ratio"): 4.5% + 2.5% Capital Conservation Buffer ("CCB");
- minimum Tier 1 ratio: 6.0% + 2.5%CCB;
- minimum Total Capital ratio: 8% + 2.5%CCB.

The Bank of Italy, with communication dated 25 March 2016, fixed the countercyclical capital buffer for the second quarter of 2016 at zero percent.

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 amounted at first to 44.4 million euro, then corrected to 44.3 million. 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 already 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 and transposed into law by amending art.1, paragraph 1 of Law no. 119 of 30 June 2016. 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 transform DTAs into tax credits. On 31 December 2015, DTAs amounted to 2,445.1 million. Based on the new regulatory provisions mentioned above, companies can keep on adopting the current rules on the conversion of DTAs into tax credits, provided that they pay an annual fee for each financial year as of 2015 up until 2029, when applicable. The election into the optional regime is irrevocable, and is considered accepted by conduct through the payment of the annual fee for financial year 2015 by 31 July 2016.
As clarified by the press release of the Council of Ministers published on 29 April last, this rule should overcome the doubts raised by the European Commission on the presence of State Aid elements in the current regulatory framework on the conversion into tax credits of eligible DTAs under Law 214/2011.
More specifically, the annual fee to be paid to be authorized to convert the eligible DTAs into tax credits must be calculated every year by applying a 1.5% charge to a "base" obtained by adding together the difference between convertible DTAs recognized in the reference annual report and the corresponding DTAs recognized in the 2007 annual report, the amount of DTAs converted into tax assets from 2008 up until the reference financial year, and by subtracting the taxes specified in the Decree and paid over the same period. Fees are deductible for both IRES and IRAP purposes in the financial year they have been paid in.
The Bank elected into the optional regime by paying the fee for FY 2015 by 31 July 2016. The fee has been charged to income of the first half of 2016 under the line-item "Other Administrative Expenses", together with the estimated fee amount for FY 2016 accrued in H1 (to be paid in 2017), amounting to euro 13.3 million, gross of tax effect.
Please note that this pro-rata temporis accrual accounting method has been applied in keeping with the prevailing opinion (as no official interpretation is available). This interpretation is based on the fact that in substance it is a cost whose amount varies depending on the evolution of the calculation base over time. As to the amount charged to income in H1, the calculation was based on the best interpretation of the text of the Decree, taking into consideration the clarifications given by the Italian Inland Revenue Authority with Circular no.32 of 22 July 2016, therefore it could undergo even substantial changes depending on all possible further indications that might be put forward, and - with respect to the amount accrued for FY 2016 - on the actual amount of taxes paid for FY 2016.

7. Other explanatory notes

The Consolidated Half-yearly Report reflects on a consolidated basis the financial accounts of Banco Popolare and its subsidiaries with respect to 30 June 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 30 June 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 GROUP

Reclassified consolidated balance sheet

Reclassified assets *(in euro thousand)*	**30/06/2016**	**31/12/2015 (*)**	**Chg.**	
Cash and cash equivalents	580,670	587,383	(6,713)	(1.1%)
Financial assets and hedging derivatives	29,365,769	27,531,012	1,834,757	6.7%
Due from banks	3,495,568	2,817,832	677,736	24.1%
Customer loans	79,445,812	78,421,634	1,024,178	1.3%
Equity investments	1,133,181	1,166,324	(33,143)	(2.8%)
Property and equipment	2,110,293	2,132,633	(22,340)	(1.0%)
Intangible assets	2,043,017	2,042,120	897	0.0%
Non-current assets held for sale and discontinued operations	75,374	109,983	(34,609)	(31.5%)
Other assets	5,449,173	5,428,245	20,928	0.4%
Total	**123,698,857**	**120,237,166**	**3,461,691**	**2.9%**

Reclassified liabilities *(in euro thousand)*	**30/06/2016**	**31/12/2015 (*)**	**Chg.**	
Due to banks	16,204,063	16,334,739	(130,676)	(0.8%)
Due to customers, debt securities issued and financial liabilities designated at fair value	83,146,243	82,141,444	1,004,799	1.2%
Financial liabilities and hedging derivatives	10,252,235	8,564,543	1,687,692	19.7%
Liability provisions	1,001,457	1,060,648	(59,191)	(5.6%)
Liabilities associated with assets held for sale	-	342,265	(342,265)	n.s.
Other liabilities	4,131,641	3,246,793	884,848	27.3%
Minority interests	87,187	53,169	34,018	64.0%
Shareholders' equity	8,876,031	8,493,565	382,466	4.5%
- Capital and reserves	9,256,200	8,063,492	1,192,708	14.8%
- Net income (loss) for the period	(380,169)	430,073	(810,242)	n.s.
Total	**123,698,857**	**120,237,166**	**3,461,691**	**2.9%**

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

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BANCO POPOLARE

Reclassified consolidated income statement

Reclassified income statement *(in euro thousand)*	**H1 2016**	**H1 2015**	**Chg.**
Net interest income	691,257	789,061	(12.4%)
Income (loss) from investments in associates carried at equity	63,476	61,318	3.5%
Net interest, dividend and similar income	**754,733**	**850,379**	**(11.2%)**
Net fee and commission income	639,308	771,085	(17.1%)
Other net operating income	46,579	48,824	(4.6%)
Net financial result (excluding FVO)	98,772	143,329	(31.1%)
Other operating income	**784,659**	**963,238**	**(18.5%)**
Total income	**1,539,392**	**1,813,617**	**(15.1%)**
Personnel expenses	(648,907)	(682,591)	(4.9%)
Other administrative expenses	(404,001)	(327,586)	23.3%
Amortization and depreciation	(63,209)	(58,815)	7.5%
Operating costs	**(1,116,117)**	**(1,068,992)**	**4.4%**
Profit (loss) from operations	**423,275**	**744,625**	**(43.2%)**
Net adjustments on loans to customers	(980,422)	(375,307)	161.2%
Net adjustments on other assets	(7,374)	(25,860)	(71.5%)
Net provisions for risks and charges	(1,987)	(49,626)	(96.0%)
Profit (loss) on the disposal of equity and other investments	285	(4,046)	n.s.
Income (loss) before tax from continuing operations	**(566,223)**	**289,786**	**n.s.**
Tax on income from continuing operations (excluding FVO)	174,885	3,210	n.s.
Income (loss) after tax from discontinued operations	(1,485)	(7,787)	(80.9%)
Income (loss) attributable to minority interests	5,580	5,131	8.8%
Net income (loss) for the period excluding FVO	**(387,243)**	**290,340**	**n.s.**
Fair Value Option result (FVO)	9,757	4,150	135.1%
Tax on FVO result	(2,683)	(1,372)	95.6%
FVO Impact	**7,074**	**2,778**	**154.6%**
Net income (loss) for the period	**(380,169)**	**293,118**	**n.s.**

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BANCO POPOLARE

Reclassified consolidated income statement: quarterly evolution

Reclassified income statement *(in euro thousand)*	**2016 Q2**	**2016 Q1**	**2015 Q4**	**2015 Q3**	**2015 Q2**	**2015 Q1 (*)**
Net interest income	339,719	351,538	368,860	387,465	401,969	387,092
Income (loss) from investments in associates carried at equity	27,362	36,114	40,958	39,203	36,672	24,646
Net interest, dividend and similar income	**367,081**	**387,652**	**409,818**	**426,668**	**438,641**	**411,738**
Net fee and commission income	322,483	316,825	340,184	314,141	350,204	420,881
Other net operating income	22,739	23,840	37,323	23,497	20,267	28,557
Net financial result (excluding FVO)	40,883	57,889	267,785	29,967	50,315	93,014
Other operating income	**386,105**	**398,554**	**645,292**	**367,605**	**420,786**	**542,452**
Total income	**753,186**	**786,206**	**1,055,110**	**794,273**	**859,427**	**954,190**
Personnel expenses	(323,378)	(325,529)	(423,317)	(327,702)	(342,176)	(340,415)
Other administrative expenses	(199,380)	(204,621)	(316,253)	(161,021)	(162,573)	(165,013)
Amortization and depreciation	(32,863)	(30,346)	(73,851)	(33,696)	(26,321)	(32,494)
Operating costs	**(555,621)**	**(560,496)**	**(813,421)**	**(522,419)**	**(531,070)**	**(537,922)**
Profit (loss) from operations	**197,565**	**225,710**	**241,689**	**271,854**	**328,357**	**416,268**
Net adjustments on loans to customers	(296,026)	(684,396)	(229,143)	(199,483)	(193,920)	(181,387)
Net adjustments on other assets	(9,062)	1,688	(23,171)	(5,150)	(22,286)	(3,574)
Net provisions for risks and charges	1,389	(3,376)	14,603	(15,768)	(6,428)	(43,198)
Profit (loss) on the disposal of equity and other investments	596	(311)	(108)	(246)	(3,959)	(87)
Income (loss) before tax from continuing operations	**(105,538)**	**(460,685)**	**3,870**	**51,207**	**101,764**	**188,022**
Tax on income from continuing operations (excluding FVO)	39,303	135,582	72,593	(5,285)	(23,328)	26,538
Income (loss) after tax from discontinued operations	(5)	(1,480)	307	200	(6,523)	(1,264)
Income (loss) attributable to minority interests	2,639	2,941	7,684	5,869	1,199	3,932
Net income (loss) for the period excluding FVO	**(63,601)**	**(323,642)**	**84,454**	**51,991**	**73,112**	**217,228**
Fair Value Option result (FVO)	(5,281)	15,038	(6,295)	7,057	16,771	(12,621)
Tax on FVO result	2,288	(4,971)	2,082	(2,334)	(5,546)	4,174
FVO Impact	**(2,993)**	**10,067**	**(4,213)**	**4,723**	**11,225**	**(8,447)**
Net income (loss) for the period	**(66,594)**	**(313,575)**	**80,241**	**56,714**	**84,337**	**208,781**

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