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Testo del comunicato

Vedi allegato.

PRESS RELEASE

Verona, 8 November 2016

Banco Popolare approves the consolidated balance sheet and income statement data as at 30 September 2016

As part of the process aimed at completing the merger with BPM, the Group is further increasing its average NPL coverage level:

- *total average NPL coverage rose to 47.0% from 43.7% at 31 December 2015 and 45.6% at 30 June 2016;*
- *the average Bad loan coverage went to 59.4% (56.3% at 31 December 2015, and 59.3% at 30 June 2016);*
- *the average Unlikely-to-pay loan coverage came in at 25.9% (25.4% at 31 December 2015, and 24.7% at 30 June 2016).*

NPL stock is significantly shrinking:

- *the net NPL stock reported a YoY reduction of 0.9 billion (-6.3%).The year-to-date drop came in at 0.7 billion (-5.1%), and QoQ it amounted to 0.2 billion (-1.2%).*

Notwithstanding the effect from the NPL coverage increase, capital solidity remains strong:

- *the "phase-in" CET 1 ratio at 30 September 2016 came in at 14.7% (13.2% at 31 December 2015 and 14.8% at 30 June 2016);*
- *the "fully-loaded" CET 1 ratio at 30 September 2016 stood at 13.7% (12.4% at 31 December 2015 and 14.1% at 30 June 2016).*

The liquidity profile continues to be excellent:

- *LCR calculated based on the new rules exceeds 200%;*
- *NSFR calculated based on the most recent rules of the Quantitative Impact Study above 100%;*
- *unencumbered eligible assets at approx. 16.7 billion, almost entirety made up of Government bonds.*

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Driven by the increase in the cost of credit caused by the decisions aimed at raising the average NPL coverage and by systemic charges, the first 9M of the year closed with a net loss of 712 million (loss reported in Q3 totals 332 million)

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

Group commercial performance:

- *net of repos, direct funding reported a YoY growth rate of 1.0% (+1.8% QoQ);*
- *in the first 9M of the year loans showed first signs of growth (+0.3%), thanks to a good level of new M/L term lending.*

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After the approval in May of the business plan of the new banking group to be formed as a result of the merger between Banco Popolare and Banca Popolare di Milano, and the finalization of the capital increase of approx. 1 billion, completed on 1 July 2016, Banco Popolare also in Q3 pressed ahead with the process to increase the average NPL coverage level.
The decisions regarding the bad loan recovery strategy and NPL valuation criteria and parameters had a significant impact on the operating performance of the first nine months, which closed with a negative bottom line posting a loss of 712 million after charging to income 1,700 million of net loan loss provisions, compared to 575 million in the same period last year.
Moreover, the 9M result has been penalized by the substantial "systemic charges" that were charged to income. In addition to the full amount of the annual contribution paid to set up the necessary financial resources for 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 47.5 million, resulting from the full annual fee due for FY 2015 (27.2 million), and the estimated fee accrued in the first 9M of FY 2016 (20.3 million). Finally, in Q3 the estimated annual contribution was charged to income, to be paid to set up the necessary financial resources for the Deposit Guarantee Scheme (Fondo Interbancario di Tutela dei Depositi), and amounting to 23 million.
The instability of capital markets, engendered by the climate of uncertainty fueled by events that have already occurred, such as the outcome of the Brexit referendum, and by pending events affecting the political and economic scenario, has steered the investment orientations of clients, leading to a reduction in the demand for investment products. This market context, together with the progressive decline in interest rates, represents the main driver of the drop reported by total income compared to the same period last year. As to operating costs, the continued actions aimed at their reduction have generated a 4.7% decline in personnel expenses and a 2.5% decline in other administrative expenses (the latter net of "systemic charges" and of merger-related costs charged to income so far).

Operating performance

Net interest income stood at 1,014.9 million, compared to 1.176,5 million in the same period last year, with a Q3 contribution of 323.6 million, compared to 339.7 million in Q2. Both on a yearly and on a quarterly basis, NII was affected by the continued fall in rates (the 1-month Euribor dropped by 28 basis points y/y and by 2 basis points q/q, while the 3-month Euribor shed 25 and 4 basis points over the same comparative periods), by the strong competitive pressure on customer loan pricing, as well as by a

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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 is characterized by a percentage of retail and wholesale bond-based funding over total direct funding that is greater than that of most of its market peers (27.3%). This situation has negatively affected the current net interest income, but going forward it will provide an important latitude for future actions aimed at reducing the cost of funding.

Income from equity method investments came in at 93.3 million, down from 100.5 million reported in the first 9M of 2015 (+29.8 million in Q3). The main contribution to this line-item was made by consumer credit, through the shareholding in Agos Ducato (+68.0 million, compared to the 68.6 million contribution in the same period of 2015).

Because of the above dynamics, **net interest, dividend and similar income** amounted to 1,108.2 million, down by 13.2% from 1,277.0 million in the first 9M of 2015.

Net commissions stood at 950.3 million, down by 12.4% from 1,085.2 million in the first 9M of 2015, which, however, had benefitted from an exceptionally positive dynamic of the asset management business. The decline reported this year was caused also by the climate of instability and uncertainty, which steered customers toward investments in capital guaranteed financial instruments.

Other revenues added up to 70.9 million, compared to 72.3 million in the same period last year.

The **net financial income excluding FVO**[1] came in at 183.8 million, from 173.3 million in the first 9M of 2015 (85.0 million in Q3), and it benefitted from the 25.6 million positive contribution generated by the recognition of a sale price adjustment (earn-out) for the stake held in ICBPI S.p.A. (the sale had been finalized last year). Net of this contribution, the net financial result reported a drop of 8.7% and it reflects the market performance.

Total income (interest, dividend and similar income + other operating income) came in at 2,313.1 million, compared to 2,607.9 million at 30 September 2015 (-11.3%).

Personnel expenses stood at 963.0 million, down by 4.7% compared to 1,010.3 million in the same period last year, due to the average headcount reduction (-366 FTE resources on a yearly basis). The total headcount at 30 September 2016 was 16,657 FTE resources, as compared to 16,731 resources at 31 December 2015 and 16,922 at 30 September 2015.

The stringent cost control affected also **other administrative expenses,** which - net of the "systemic charges" described above, totaling 114.8 million, and of the merger-related costs charged to income so far (5.5 million) - went down by 2.5% compared to the first 9M of 2015. When including also the above-mentioned charges, administrative expenses add up to 596.7 million, up by 22.1% compared to 488.6 million in the first 9M of 2015. **Depreciation and amortization** for the period amounted to 109.8 million, up from 92.5 million at 30 September 2015, and they include non-recurring write-downs (-17.9 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 (at 30 September 2015, write-downs amounted to 2.3 million).

Total **operating costs** came in at 1,669.5 million from 1,591.4 million in the first 9M of 2015. The cost/income ratio for the period, namely the ratio between total operating expenses and total operating income, net of non-recurring items and "systemic charges", came in at 66.9%.

Net write-downs on customer loan impairments stood at 1,699.7 million, compared to 574.8 million in the first 9M of 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, due to the decisions made to raise the average NPL coverage.

Net write-backs on impairment of other assets of 8.0 million were credited to income for the period (-31.0 million in the first 9M of 2015).

[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. Because of the deterioration of Banco's credit rating, the FVO impact in the first 9M of 2016 generated a positive effect of 8.1 million (+5.9 million after tax). In the same period of 2015 the contribution had been equally positive, and it amounted to 11.2 million (+7.5 million after tax).

Net provisions for risks and charges totaled 7.5 million, compared to 65.4 million in the first 9M of 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 (18.7 million).
The **loss before tax from continuing operations** came in at 1,068.6 million, as compared to an income of 341.0 million posted in the first 9M of 2015.
Income tax from continuing operations at 30 September 2016 posted a credit of 331.5 million (-2.1 million at 30 September 2015).
Considering the negative result from discontinued operations (-1.5m), the share of losses to be attributed to non-controlling interest (20.3 million), and the FVO impacts (+5.9 million after tax), the first 9M of 2016 closed with a **net loss for the period** of 712.4 million, compared to a net income of 349.8 million generated in the first 9M of 2015.

Evolution of key balance sheet items

At 30 September 2016, **direct funding** came in at 81.4 billion, down by 0.9% from 82.1 billion at 31 December 2015 (-2.1% over the last quarter; -2.5% from 83.5 billion at 30 September 2015). The YoY and QoQ decline is entirely attributable to the decrease in repo transactions (-2.8 and -3.1 billion, respectively), as the growth in core funding (checking accounts and deposits with branch network) more than offset the decline in maturing bonds that were not replaced by new issues, in keeping with the decision to reduce the weight of relatively more expensive funding sources. Note that the item does not include the stable funding guaranteed by the stock of certificates issued by the Group, which at 30 September 2016 increased to 6.0 billion (+24.1% YoY, +11.8% over the first 9M and +3.6% in Q3).
The underperformance of financial instrument prices and an extraordinary transaction carried out in H1 2016 have been the main driver of the drop in **indirect funding,** running at 68.6 billion (-2.4% YoY and -3.5% in 9M). Net of the above components, the item would have reported a growth rate of 3.2% YoY and of 2.7% in the first 9M. In Q3 indirect funding went up by 1.8%, driven by the positive performance (+3.9%) of asset management, reaching 36.3 billion; on a yearly basis, managed assets grew by 4.6% notwithstanding the fluctuation of prices on financial markets. Administered assets instead came in at 32.3 billion (-9.5% over the last 9M and -9.2% on a yearly basis).

At 30 September 2016, **gross loans** amounted to 85.6 billion, up by 0.3% compared to 85.3 billion at year-start (-0.9% in Q3). The year-on-year decline (-1.1%) was entirely driven by the sale of NPLs, by the progressive run-off of the loan portfolio of the Leasing Division[2], and by fewer repo transactions. Net of these non-core components, gross loans reported an uptick compared to 30 September 2015.
Note that in the first 9M of 2016, roughly 7.5 billion of medium/long term loans were granted, of which 2.4 billion in Q3 alone (+12.8% over 30 September 2015). The lending activity covered all customer segments (Households & Individuals 1.4 billion, Mid Corporate 3.2 billion, Small Businesses 1.7 billion, Large Corporate and Public organizations 1.1 billion).

Net non-performing loans (Bad, Unlikely-to-pay and Past-due loans) at 30 September 2016 amounted to 13.3 billion, down by 5.1% vs. 31 December 2015 and by 6.3% vs. 30 September 2015 (-1.2% in Q3). The reduction was driven primarily by the loan loss provisions charged to income in the first 9M of 2016. Net NPLs, represented by loans from the “Leasing” sector, totaled 2.2 billion, reporting a decline compared to 31 December 2015. They are mainly constituted by property leases.
More specifically, net of write-downs, the Group reported Bad loans totaling 6.5 billion (+0.2% vs. 31 December 2015 and +0.7% vs. 30 September 2015), Unlikely-to-pay loans totaling 6.7 billion (-9.1% vs. 31 December 2015 and -10.2% vs. 30 September 2015), Past dues totaling 0.2 billion (-26.3% vs. 31 December 2015 and -54.4% vs. 30 September 2015).

[2] At 30 September 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 5.6 billion, reporting a progressive reduction from 6.3 billion at 30 September 2015 and from 6.0 billion at 31 December 2015.

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The coverage ratio for the entire NPL cluster, including Bad loan write-offs, stood at 47.0%, up by 3.35 percentage points compared to 43.7% at 31 December 2015 (45.1% at 30 September 2015). Notably, at 30 September 2016, 59.4% of the Group's bad loans had been written down or derecognized (56.3% at 31 December 2015, and 58.3% at 30 September 2015); the coverage ratio of Unlikely-to-pay stood at 25.9% (25.4% at 31 December 2015, and 26.1% at 30 September 2015), and that of Past-dues came in at 19.7% (20.7% at 31 December 2015, and 15.8% at 30 September 2015).
The coverage ratio of performing loans was 0.42%, versus 0.51% at 31 December 2015 and 0.58% at 30 September 2015, and it reflects the progressive improvement of the quality of the performing loan portfolio. Net of repos and securities lending exposures, that are basically risk-free, the coverage ratio comes in at 0.47% (0.56% at 31 December 2015).

Group capital ratios

Based on the phase-in arrangements effective on 30 September, the Common Equity Tier 1 ratio (CET1 ratio) comes in at 14.7% (13.2% at 31 December 2015 and 14.8% at 30 June 2016). The Q3 reduction was entirely attributable to the negative impact on profitability generated by the increase in the average NPL coverage, which was partially offset by a decline in risk-weighted assets. The Tier 1 ratio, in the absence of elements eligible to be included in AT1 capital (Additional Tier 1), is also equal to 14.7%. The Total capital ratio stands at 17.9%, compared to 15.9% at 31 December 2015 and 18.1% at 30 June 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 13.7% (12.4% at 31 December 2015 and 14.1% at 30 June 2016).

Banco Popolare took part in 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 solidity 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 factor in the rights issue completed by Banco Popolare on 1 July 2016, which bolstered the Group's capital position further.

The ECB set the minimum capital requirement Banco Popolare must meet in terms of CET1 ratio at 9.55% based on the 2015 SREP decision communicated on 20 November 2015.

The leverage ratio based on the phase-in rules came in at 4.8% (5.3% at 30 June 2016). The same ratio on a fully-loaded basis is estimated at 4.5% (5.0% at 30 June 2016).

Liquidity profile

At 30 September 2016, the Group confirmed its excellent liquidity profile. ECB exposure totaled 12.0 billion, as at the end of FY 2015, and in the last quarter it remained stable. At the same date, the Group had unencumbered eligible assets totaling 16.7 billion, net of haircuts, (16.1 billion at 31 December 2015 and 13.9 billion at 30 June 2016), primarily represented by an unencumbered portfolio of Italian Government bonds. The increase compared to June 2016 was mainly due to securities that were no longer held in repo transactions and had therefore become available again.

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At 30 September 2016, Banco Popolare's LCR, calculated based on the new rules under the "Delegated Act", exceeded 200%[3].
An additional liquidity requirement is soon going to be introduced, measured along a longer-term time horizon, called Net Stable Funding Ratio ("NSFR"). This ratio, calculated based on the most recent rules of the Quantitative Impact Study and including capital-protected certificates, exceeds 100%.

Operational outlook

Business management also in the last quarter will be mainly focused on the completion of the merger with BPM. In this context, the Group will continue to make the necessary decisions within the still ongoing process to increase the average NPL coverage level.. This course of action, together with the recognition of costs related to the merger implementation, will negatively affect the Group's profitability in Q4.

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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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Following the amendments to the Consolidated Financial Act (TUF) introduced by Lgs. D. no. 25 of 15 February 2016, transposing the Transparency Directive II into Italian law, the Board of Directors of Banco Popolare decided not to publish a separate "Quarterly financial report as at 30 September" in addition to the periodic financial information disclosed in this Press Release and in the document "Banco Popolare – Presentation of consolidated results as at 30 September 2016". The balance sheet and income statement data as at 30 September 2016 illustrated in this Press Release are those that have been approved today by the Board of Directors of Banco Popolare, in order to allow the production of the FINREP and COREP supervisory notifications, which will be sent to the ECB.

The decisions as to the communication contents and procedures for the periodic quarterly updates in FY 2017 and for the years to come will be made by the Board of Directors of the NewCo (Banco BPM S.p.A.) formed from the finalization of the merger, taking into consideration the amendments to the Issuers Regulation communicated by Consob on 3 November 2016 and effective as of 2 January 2017.

This press release and the handouts for today's conference call for the presentation of the financial results of Gruppo Banco Popolare are available on the corporate website www.bancopopolare.it, as well as on the website of the authorized central storage mechanism www.emarketstorage.com.

[3] On 1 October 2015 the Delegated Regulation (EU) 61/2015 came into effect, imposing a given liquidity coverage to banks, measured along a short-term time horizon (Liquidity Coverage Ratio, "LCR"). The regulation provides for a gradual adoption ("phase in": 60% as of 1 October 2015; 70% as of 1 January 2016; 80% as of 1 January 2017; 100% as of 1 January 2018). Starting on the monthly reporting as at 30/9/2016, the calculation of the above ratio must be carried out based on the technical standards under the Implementing regulation (EU) 2016/322 of 10 February 2016.

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Explanatory Notes and general reporting criteria

This Press Release is aimed at providing timely information on the balance sheet and income statement data as at 30 September 2016, as approved by the Board of Directors of Banco Popolare with the aim of providing for the preparation of regulatory notifications under FINREP and COREP that shall be sent to the ECB.
This information is based on the balance-sheet and income statement tables attached to this news release, that have been reclassified, and report convenient aggregates based on the financial statements prepared in compliance with the instructions set forth in the Bank of Italy Circular no. 262 of 22 December 2005 and following amendments, as described in the 2015 Annual Report of Gruppo Banco Popolare.
The valuation criteria used to prepare the balance-sheet and the income statement of Gruppo Banco Popolare were the same followed to prepare the consolidated financial statements at 31 December 2015, in compliance with IAS/IFRS international accounting standards and associated IFRIC interpretations, as adopted by the European Commission, pursuant to the EC Regulation no. 1606 of 19 July 2002, except for what clarified below:

- for goodwill and other intangible assets with an indefinite useful life, totaling €1,611.1m as at 30 September 2016, no other loss indicators have been examined, in addition to those considered for the latest impairment test conducted on 31 December 2015. As usual, the impairment test will be conducted upon preparing the financial statements as at 31 December 2016;
- for Deferred Tax Assets, the recoverability of which is strictly connected with the Group's ability to generate capable future taxable income (the so-called "tax capability"), a complete formal verification regarding their recoverability will be carried out upon preparing the financial statements as at 31 December 2016, also taking in to account the fiscal effects tied to the upcoming merger deal. As at 30 September 2016, these assets amounted to €720.2m of which €385.7m related to assets for losses carried forward taxes for IRES purposes (as at 31 December 2015 these assets amounted to €382.6m and €47.5m, respectively);
- for employee benefits, which under IAS 19 must undergo an actuarial valuation, the valuations expressed by the independent actuary were not updated with those delivered on 30 June 30. An update of these valuation will be carried out upon preparing the financial statements as at 31 December 2016;
- certain elements of commissions and administrative expenses are estimated based on budget data, since it is impossible to use ordinary procedures to determine the amount of revenues and costs associated with services provided and received but not yet billed.

The application of some accounting principles implies necessarily the recourse to estimates and assumptions which have an effect on the assets and liabilities recorded in the accounting documentation.
The assumptions used for the formulation of estimates take into account all information available as at 30 September 2016.
In the light of the situation of uncertainty which characterizes the context of reference, it cannot be excluded that the estimates and assumptions, even though reasonable, may not find confirmation in the future scenarios in which the Group may find itself operating. Therefore, future actual results may differ from the estimates made for the purpose of the preparation of the balance sheet and income statement situation as at 30 September 2016 and, consequently, adjustments that are today neither predictable nor can be estimated with respect to the accounting value of the assets and liabilities recorded in the accounting documentation, may become necessary.

Please find a description of the recognition, classification, valuation, cancellation criteria for items reported in the financial statements in the Annual Report as at 31 December 2015 ("Part A – Accounting policies"). To this respect, please note that the information contained in this News Release has not been prepared in compliance with IAS 34 on interim financial reporting and has not been audited.

With reference to the coverage ratio of Bad loans and, consequently, of total deteriorated loans referred to in this Press Release, it should be specified that this ratio considers, both for the numerator representing value adjustments and for the denominator representing the gross exposure, the amount of derecognized loans (so-called write-offs). This amounts corresponds to the share of loans deemed irrecoverable and subject to accounting cancellation; given that these refer, in particular, to loans versus borrowers that are under bankruptcy procedures (insolvency proceedings, compulsory receivership, agreements with creditors, extraordinary administration for large companies in distress) for which a recovery attempt is still under way through the regular booking of the full gross exposure, including also the share of loans that were derecognized in the accounts. With reference to the balance sheet representation, it is specified that the recourse by Banco Popolare Group to the write-off technique is viewed as an alternative in comparison with the one based on loan loss impairments, but determines an underestimation of the coverage ratios considering that the share of Bad loans that are fully written off is eliminated, while the share of loans deemed recoverable remains recorded in the accounting data on the grounds that it is supported by valid guarantees. Therefore, the inclusion of write-offs in the above-illustrated calculation allows to point out the actual coverage level of loan exposures, as if Banco Popolare Group had made recourse to accounting procedure based on impairments.

For a better understanding of the information illustrated in this News Release and in the attached financial statements, please note that:

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

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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 September 2016 came in at -16.4 million (-179 million at 30 September 2015).
The overall effect on the net consolidated income at 30 September 2016 was -12.9 million (-13.9 million at 30 September 2015).

2. Changes in consolidation scope

In the first 9M of 2016 the only significant change has been the final exit of the subsidiary Banco Popolare Luxembourg from the consolidation scope, following the sale closed on 29 February 2016. The shareholding in Aletti Suisse, transferred to Banca Aletti S.p.A on 4 January 2016, did not fall within the scope of the sold assets, nor did 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, over the first 9M of the year, the liquidation procedures were completed regarding the associates Banca Italease Funding LLC, Banca Italease Capital Trust and Italease Finance S.p.A., as well as Borgo del Forte S.r.l., which was previously accounted for under the equity method.

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.

Net income at 30 September 2016 was penalized by the impact from the decisions aimed at increasing the average NPL coverage.
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 9M income statement was penalized by the impact from the decline in the book value of debt securities in issue measured at fair value driven by the downward revision of Banco Popolare's credit rating as compared with the end of the previous period (+8.1 million, gross of tax effect). For the same reason the P&L as at 30 September 2015 had reported a positive impact of 11.2 million, gross of tax effect.
The line-item "Net financial result" (ex-FVO) in Q3 2016 included an earn-out payment of 25.6 million, gross of tax effect, related to the sale (finalized in 2015) of the stake held in Istituto Centrale delle Banche Popolari Italiane S.p.A..
The line-item "other administrative expenses" includes the annual fee to be paid to retain the right to convert "Eligible DTAs" into tax credits in case of recognition of a net loss for the year and/or tax losses. 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 at 30 September 2016 but accrued in the prior year totals 27.2 million, gross of tax effect. "Other administrative expenses" also include 5.5 million of charges connected with the merger with Gruppo BPM, again gross of tax effect.
The line-item "Gain/loss on the disposal of equity and other investments" at 30 September 2016 includes 3.2 million of gains, gross of tax effect, mainly generated by the sale of investment property.
Moreover, the 9M 2016 income statement has been negatively affected by the impairment, totaling 17.9 million, of certain real estate, classified as tangible assets purchased for investment purposes, so as to bring the book value in line with the estimated recoverable value. In the same period of 2015 P&L had reported a gross negative impact of 6.1 million..
Finally, the 9M 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 18.7 million to address the unfavorable outcome of tax litigations; 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: 6.0% + 2.5% CCB;
- minimum Total Capital ratio: 8% + 2.5% CCB.

Please note that on 4 October 2016, the Bank of Italy, with Update no. 18 of Circular no. 285, brought the CCB down to 1.25% for 2017 and to 1.875% for 2018.

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With measure dated 24 June 2016, the Bank of Italy confirmed the Countercyclical Capital Buffer at zero percent also for Q3 2016.

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 exceeding the minimum 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. Charges generated by the contribution to resolution mechanisms and deposit guarantee schemes

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.

As to the deposit guarantee scheme, the 2016 contribution, estimated at 23 million, has been fully charged to the line-item "other administrative expenses" in Q3, since, based on conducted inquiries, the 30 September has been deemed to be the binding reference date to recognize this obligation. To this regard it should be clarified that the actual contribution due in FY 2016 may differ from the estimate calculated for this News Release, since to date no communication has been received from the *Fondo Interbancario di Tutela dei Depositi*.

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 i.
The Group elected into the optional regime by paying the fee for FY 2015 by 31 July 2016. The fee has been charged to income in 2016 under the line-item "Other Administrative Expenses", together with the estimated fee amount for FY 2016 accrued in 9M (to be paid in 2017), amounting to euro 20.3 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 the first 9M of the year, 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 change depending on all possible further indications and interpretations 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 reclassified balance sheet and income statement reflect on a consolidated basis the financial accounts of Banco Popolare and its subsidiaries with respect to 30 September 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 September 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)*	**30/09/2016**	**31/12/2015 (*)**	**Chg.**	
Cash and cash equivalents	605,267	587,383	17,884	3.0%
Financial assets and hedging derivatives	28,782,260	27,531,012	1,251,248	4.5%
Due from banks	3,668,825	2,817,832	850,993	30.2%
Customer loans	78,180,080	78,421,634	(241,554)	(0.3%)
Equity investments	1,163,773	1,166,324	(2,551)	(0.2%)
Property and equipment	2,006,657	2,132,633	(125,976)	(5.9%)
Intangible assets	2,039,579	2,042,120	(2,541)	(0.1%)
Non-current assets held for sale and discontinued operations	84,383	109,983	(25,600)	(23.3%)
Other assets	5,420,404	5,428,245	(7,841)	(0.1%)
Total	**121,951,228**	**120,237,166**	**1,714,062**	**1.4%**

Reclassified liabilities *(in euro thousand)*	**30/09/2016**	**31/12/2015 (*)**	**Chg.**	
Due to banks	16,165,041	16,334,739	(169,698)	(1.0%)
Due to customers, debt securities issued and financial liabilities designated at fair value	81,394,679	82,141,444	(746,765)	(0.9%)
Financial liabilities and hedging derivatives	10,555,297	8,564,543	1,990,754	23.2%
Liability provisions	984,025	1,060,648	(76,623)	(7.2%)
Liabilities associated with assets held for sale	-	342,265	(342,265)	
Other liabilities	4,220,639	3,246,793	973,846	30.0%
Minority interests	72,111	53,169	18,942	35.6%
Shareholders' equity	8,559,436	8,493,565	65,871	0.8%
- Capital and reserves	9,271,798	8,063,492	1,208,306	15.0%
- Net income (loss) for the period	(712,362)	430,073	(1,142,435)	
Total	**121,951,228**	**120,237,166**	**1,714,062**	**1.4%**

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

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Reclassified consolidated income statement

Reclassified income statement *(in euro thousand)*	**30/09/2016**	**30/09/2015**	**Chg.**
Net interest income	1,014,869	1,176,526	(13.7%)
Income (loss) from investments in associates carried at equity	93,298	100,521	(7.2%)
Net interest, dividend and similar income	**1,108,167**	**1,277,047**	**(13.2%)**
Net fee and commission income	950,269	1,085,226	(12.4%)
Other net operating income	70,877	72,321	(2.0%)
Net financial result (excluding FVO)	183,763	173,296	6.0%
Other operating income	**1,204,909**	**1,330,843**	**(9.5%)**
Total income	**2,313,076**	**2,607,890**	**(11.3%)**
Personnel expenses	(963,024)	(1,010,293)	(4.7%)
Other administrative expenses	(596,655)	(488,607)	22.1%
Amortization and depreciation	(109,850)	(92,511)	18.7%
Operating costs	**(1,669,529)**	**(1,591,411)**	**4.9%**
Profit (loss) from operations	**643,547**	**1,016,479**	**(36.7%)**
Net adjustments on loans to customers	(1,699,745)	(574,790)	195.7%
Net adjustments on other assets	(8,032)	(31,010)	(74.1%)
Net provisions for risks and charges	(7,484)	(65,394)	(88.6%)
Profit (loss) on the disposal of equity and other investments	3,158	(4,292)	
Income (loss) before tax from continuing operations	**(1,068,556)**	**340,993**	
Tax on income from continuing operations (excluding FVO)	331,488	(2,075)	
Income (loss) after tax from discontinued operations	(1,485)	(7,587)	(80.4%)
Income (loss) attributable to minority interests	20,297	11,000	84.5%
Net income (loss) for the period excluding FVO	**(718,256)**	**342,331**	
Fair Value Option result (FVO)	8,130	11,207	(27.5%)
Tax on FVO result	(2,236)	(3,706)	(39.7%)
FVO Impact	**5,894**	**7,501**	**(21.4%)**
Net income (loss) for the period	**(712,362)**	**349,832**	

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Reclassified consolidated income statement: quarterly evolution

Reclassified income statement	**2016**			**2015**			
(in euro thousand)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1 (*)**
Net interest income	323,612	339,719	351,538	368,860	387,465	401,969	387,092
Income (loss) from investments in associates carried at equity	29,822	27,362	36,114	40,958	39,203	36,672	24,646
Net interest, dividend and similar income	**353,434**	**367,081**	**387,652**	**409,818**	**426,668**	**438,641**	**411,738**
Net fee and commission income	310,961	322,483	316,825	340,184	314,141	350,204	420,881
Other net operating income	24,298	22,739	23,840	37,323	23,497	20,267	28,557
Net financial result (excluding FVO)	84,991	40,883	57,889	267,785	29,967	50,315	93,014
Other operating income	**420,250**	**386,105**	**398,554**	**645,292**	**367,605**	**420,786**	**542,452**
Total income	**773,684**	**753,186**	**786,206**	**1,055,110**	**794,273**	**859,427**	**954,190**
Personnel expenses	(314,117)	(323,378)	(325,529)	(423,317)	(327,702)	(342,176)	(340,415)
Other administrative expenses	(192,654)	(199,380)	(204,621)	(316,253)	(161,021)	(162,573)	(165,013)
Amortization and depreciation	(46,641)	(32,863)	(30,346)	(73,851)	(33,696)	(26,321)	(32,494)
Operating costs	**(553,412)**	**(555,621)**	**(560,496)**	**(813,421)**	**(522,419)**	**(531,070)**	**(537,922)**
Profit (loss) from operations	**220,272**	**197,565**	**225,710**	**241,689**	**271,854**	**328,357**	**416,268**
Net adjustments on loans to customers	(719,323)	(296,026)	(684,396)	(229,143)	(199,483)	(193,920)	(181,387)
Net adjustments on other assets	(658)	(9,062)	1,688	(23,171)	(5,150)	(22,286)	(3,574)
Net provisions for risks and charges	(5,497)	1,389	(3,376)	14,603	(15,768)	(6,428)	(43,198)
Profit (loss) on the disposal of equity and other investments	2,873	596	(311)	(108)	(246)	(3,959)	(87)
Income (loss) before tax from continuing operations	**(502,333)**	**(105,538)**	**(460,685)**	**3,870**	**51,207**	**101,764**	**188,022**
Tax on income from continuing operations (excluding FVO)	156,603	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	14,717	2,639	2,941	7,684	5,869	1,199	3,932
Net income (loss) for the period excluding FVO	**(331,013)**	**(63,601)**	**(323,642)**	**84,454**	**51,991**	**73,112**	**217,228**
Fair Value Option result (FVO)	(1,627)	(5,281)	15,038	(6,295)	7,057	16,771	(12,621)
Tax on FVO result	447	2,288	(4,971)	2,082	(2,334)	(5,546)	4,174
FVO Impact	**(1,180)**	**(2,993)**	**10,067**	**(4,213)**	**4,723**	**11,225**	**(8,447)**
Net income (loss) for the period	**(332,193)**	**(66,594)**	**(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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