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DBRS Assigns BBB Rating to Banco Popolare, Trend Negative

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today assigned ratings to Banco Popolare Societa Cooperativa (Banco Popolare, BP, the Bank or the Group). The ratings include a Senior Long-Term Debt and Deposit Rating of BBB and a Short-Term Debt and Deposit Rating of R-2 (high). Concurrently, DBRS assigned an Intrinsic Assessment (IA) to the Group of BBB (low) and a support assessment of SA-2. The trend on both ratings is Negative.

The IA at BBB (low) reflects Banco Popolare's large retail franchise across some of the wealthiest regions of North Italy, as well as management's commitment to improve the Bank's risk profile, efficiency levels and capitalisation. Nonetheless, the IA at BBB (low) considers the Bank's weak earnings track-record, the high level of deteriorated assets and the Bank's ongoing reliance on ECB funding. The SA-2 considers Banco Popolare's role as a systemically important institution in Italy and DBRS's expectation of likely systemic support in the event of a highly stressed scenario. As such, for Banco Popolare, the SA-2 designation results in a one-notch uplift from the IA.

The Negative trend reflects DBRS's expectation that credit costs will remain elevated as a result of the still fragile economic environment in Italy, as well as the increased regulatory scrutiny from the ECB. Downward rating movement could emerge if the Group sees an increase in asset quality deterioration which leads to pressure on the Group's capitalisation. On the other hand, the ratings could be positively impacted by a meaningful reduction in the stock of impaired loans, less reliance on ECB funding, and a return to sustained profitability.

In DBRS' view, Banco Popolare's large and diversified franchise is underpinned by a solid market position, a wealthy and stable client base and strong distribution network. The Group was formed in 2007 following the merger of Banca Popolare di Verona e Novara (BPVN) and Banca Popolare Italiana (BPI). The merger created the fourth largest Italian bank by total assets and the largest cooperative group by branches with leading market shares across some of Italy's wealthiest regions. Nevertheless, the Bank's franchise and financial fundamentals weakened following the acquisition of Banca Italease in 2009. Since then, management has focused on Banco Popolare's comprehensive restructuring which is on target for completion in 2015 with the planned merger of Banca Italease.

Banco Popolare continues to face significant challenges in improving profitability. High funding



costs, the low interest rate environment, as well as deleveraging and pressure on lending margins continue to negatively impact net interest income. Goodwill / Purchase Price Allocation impairments on previous acquisitions, combined with restructuring costs, as well as increased credit provisions, have all contributed to the Bank's negative performance in 2011-2014.

The Bank's risk profile is mainly credit driven and has weakened during the crisis. Banco Popolare's total impaired lending ratio increased to 22.9% of total gross loans in 3Q14 from 14.2% in 2011. The credit sectors most affected were real estate and domestic oriented SMEs. Both suffered as a result of the prolonged Italian recession. The Bank's asset quality also reflects legacy issues from Banca Italease which contributed 19% of Banco Popolare's total impaired positions at September 2014.

In preparation for the ECB comprehensive assessment (CA), Banco Popolare strengthened its provisioning levels. Nonetheless, the Bank's coverage ratios remain below pre-crisis levels and additional provisioning needs were identified under the ECB CA.

Banco Popolare benefits from the Bank's deep retail base, which contributed roughly 77% of the total Bank's balance sheet funding at September 2014. In addition, the Bank has continued to rely on access to ECB based funding sources. With EUR 14 billion of unencumbered assets, the Group has a sizeable liquidity buffer for future bond maturities.

BP's regulatory capital and leverage ratios improved following the EUR 1.5 billion rights issue in 1H14 which allowed BP to pass retroactively the ECB comprehensive assessment. At September 2014, the Bank reported CET 1 ratio of 13.7% (Basel 3 phased-in) which provides an adequate buffer for further increase in provisioning levels.

Notes:

All figures in Euros (EUR) unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2014). Other applicable methodologies include the DBRS Criteria: Support Assessment for Banks and Banking Organisations (January 2014) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (December 2013). These can be found at: <http://www.dbrs.com/about/methodologies>.

The sources of information used for this rating include company documents and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of



satisfactory quality.

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Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.

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Lead Analyst: Peter Burbank
Rating Committee Chair: Roger Lister
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DBRS Ratings Limited
1 Minster Court, 10th Floor
Mincing Lane
London
EC3R 7AA
United Kingdom
Registered in England and Wales: No. 7139960

For additional information on this rating, please refer to the linking document located at:
<http://www.dbrs.com/research/236983/banks-and-banking-organisations-linking-document.pdf>

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banco Popolare Societa Cooperativa	Senior Long-Term Debt and Deposit	New Rating	BBB	Neg	Dec 15, 2014
Banco Popolare Societa Cooperativa	Issuer Rating	New Rating	BBB	Neg	Dec 15, 2014

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banco Popolare Societa Cooperativa	Short-Term Debt and Deposit	New Rating	R-2 (high)	Neg	Dec 15, 2014

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Peter Burbank
Senior Vice President - Global Financial Institutions Group
+44 20 7855 6615
pburbank@dbrs.com

Nicola De Caro
Assistant Vice President - Global Financial Institutions Group
+44 20 7855 6632
ndecaro@dbrs.com

Alan G. Reid
Group Managing Director – Financial Institutions and Sovereign Group
+1 212 806 3232
areid@dbrs.com

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