Rating Report

# Banco Popolare Societa Cooperativa


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DBRS
Insight beyond the rating.

## Ratings

| Issuer | Debt | Rating | Rating Action | Trend |
|---|---|---|---|---|
| Banco Popolare Societa Cooperativa | Short-Term Debt and Deposit | R-2 (middle) | Trend Change | Stable |
| Banco Popolare Societa Cooperativa | Issuer Rating | BBB (low) | Trend Change | Stable |
| Banco Popolare Societa Cooperativa | Senior Long-Term Debt and Deposit | BBB (low) | Trend Change | Stable |

See page 9 for full list of ratings

## Rating Considerations

**Franchise Strength:**
Large and diversified franchise with solid market shares across some of the wealthiest regions of Northern Italy.

| Earnings Power: | Risk Profile: | Funding and Liquidity: | Capitalisation: |
|---|---|---|---|
| Weak profitability mainly due to high credit costs, goodwill impairments and restructuring. | Large stock of NPLs reflecting deterioration across SME, real estate and leasing segments. | Satisfactory funding position, underpinned by large retail base. Adequate liquidity buffer. | Improved capitalisation following rights issues and asset disposals. |

## Rating Drivers

**Factors with Positive Rating Implications**

- Meaningful reduction in the NPL stock
- Sustained profitability
- Further progress on restructuring, including transformation into joint stock company

**Factors with Negative Rating Implications**

- Further weakening in asset quality
- Deterioration in capital position
- Worsening in the macroeconomic environment

## Financial Information

| EUR Millions | 30/06/2015 | 31/12/2014 | 31/12/2013 | 31/12/2012 | 31/12/2011 |
|---|---|---|---|---|---|
| Total Assets | 125,021 | 123,082 | 125,402 | 131,921 | 134,127 |
| Equity | 8,486 | 8,076 | 8,523 | 8,981 | 9,423 |
| Pre-provision operating income (IBPT) | 714 | 1,093 | 1,159 | 425 | 1,051 |
| Net Income | 293 | -1,946 | -606 | -945 | -2,258 |
| Net Interest Income / Risk Weighted Assets | 3.28% | 3.24% | 3.34% | 3.17% | 2.01% |
| Efficiency Ratio (%) | 63.38% | 69.28% | 69.05% | 85.30% | 71.74% |
| Impaired Loans % Gross Loans | 24.29% | 24.71% | 20.92% | 16.89% | 14.18% |
| Loss loan provisions % impaired loans | 33.93% | 34.22% | 26.85% | 26.76% | 25.98% |
| CET 1 (As-reported) [1] | 12.25% | 11.87% | 9.70% | 10.07% | 7.05% |

*Note: [1] Core Tier 1 % from 2011-2013, CET1 % from 2014*

## Issuer Description

Banco Popolare Societa' Cooperativa (Banco Popolare, the Bank or the Group) ranks as Italy's 4th largest bank by total assets. Listed on the Milan Stock Exchange, the Bank has a large commercial and retail franchise in some of the wealthiest regions of Northern Italy, providing a full range of financial products and services to households, SMEs and Corporates.

## Rating Rationale

On December 15, 2015, DBRS Ratings Limited (DBRS) confirmed the ratings for Banco Popolare, including the Senior Long-Term Debt and Deposit Rating at BBB (low) and the Short Term Debt and Deposit Rating at R-2 (middle). The trend on both ratings has been changed to Stable from Negative. Concurrently, DBRS confirmed the Bank's Intrinsic Assessment (IA) at BBB (low) and the support assessment of SA3. As a result, the Bank's final ratings are positioned in line with its IA.

The rating confirmation reflects Banco Popolare's stable franchise across some of the wealthiest regions of Northern Italy, as well as the Bank's improved earnings generation and the stabilizing asset quality. However, the IA continues to reflect Banco Popolare's large stock of net impaired loans, as well as the Bank's high exposure to ECB funding. The change in the trend to Stable, from Negative, reflects DBRS' expectation that Banco Popolare will maintain an adequate performance in 2016, together with further improvements in asset quality.

In DBRS' view, Banco Popolare benefits from a large and diversified franchise with solid market shares across some of the wealthiest regions of Northern Italy. In 2015 the Bank has continued to make progress in implementing its restructuring plan, including improvements in risk management, as well as the Group's simplification via a reduction in total headcount, and asset disposals. For 2016, the Bank is expected to transform into a joint-stock company. In DBRS' view, the legal shift is likely to promote further improvements in corporate governance and efficiency, as well as strengthen the Bank's ability to raise capital and/or participate in possible consolidation.

Banco Popolare's performance recovered somewhat during 2015. After 4 years of consecutive losses, the Bank is expected to return to profit for the full-year. Although credit costs remain high in DBRS' view, they have reduced significantly, helping the Bank to report net profit of EUR 350 million for 9M 2015, compared to a loss of EUR 122 million for 9M 2014. Further improvement in commission income, as well as in cost efficiency, will be needed to offset ongoing pressure on the net interest margin from the low interest rate environment and increased market competition.

Banco Popolare's asset quality began to stabilise during 2015 as evidenced by a lower level of inflows into impaired loans. At September 2015, the Bank reported a total gross impaired ratio of 24.8%, in line with the level registered at December 2014 (24.7%). Moreover, in October 2015, the Bank sold a portfolio of unsecured bad loans for a nominal value of approximately EUR 950 million.

In conjunction with the European AQR, the Bank's provisioning levels were strengthened to a more adequate level, with the total coverage ratio increasing to 34% (or 45% including write-offs) at end-September 2015, from 27% (or 38%) as of end-September 2014. Despite these improvements, Banco Popolare's stock of net impaired loans remains high (EUR 14 billion) and corresponds to approximately 243% of the Bank's Common Equity Tier 1 (CET1) capital at end-September 2015.

Banco Popolare's funding profile is underpinned by its large retail base, which contributed roughly 70% of the Bank's total balance sheet funding at end-September 2015. However, the Bank has continued to rely on access to ECB based funding sources as well. With EUR 14.5 billion in total unencumbered assets at end-October 2015, the Bank maintains an adequate liquidity buffer for future bond maturities.

The Bank's regulatory capital ratios have strengthened over the past two years. At end-September 2015, Banco Popolare reported a CET1 ratio of 12.7% (or 12.2% Basel III fully loaded), up from 11.9% at end-2014, which provides a buffer over the 9.55% minimum threshold set by the ECB via the SREP process in November 2015. In DBRS' view, improvement in the Bank's earnings generation capacity, together with further asset disposals, will be critical to maintain the Bank's capital position, particularly given the possible increased regulatory hurdles in the future.

# Franchise Strength

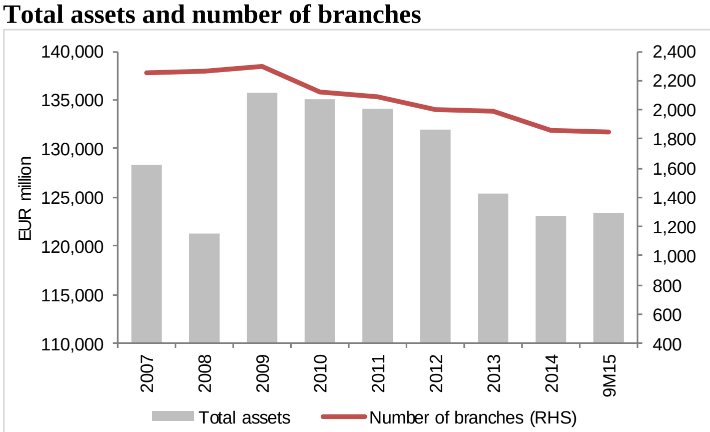
Banco Popolare is the 4th largest Italian bank by total assets and the largest cooperative group ("Popolare" or mutual bank) by number of branches. At September 2015, the Bank had EUR 123 billion in total assets, 1,815 branches and approximately 17,000 FTE employees. The Bank's main activities include retail and commercial banking, investment banking, asset management, as well as leasing, consumer finance and bancassurance. The Group predominantly serves households, small businesses and SMEs which together represent approximately 85% of the total customer base.

Banco Popolare's activities and network are mainly concentrated in the wealthy North Italian regions. The Bank's market share for branches exceeds 8% across the regions of Piedmont, Veneto and Lombardy. The Group was formed in 2007 following the merger of Banca Popolare di Verona e Novara and Banca Popolare Italiana. In 2009, Banco Popolare acquired the troubled bank "Banca Italease", active in real estate leasing. The acquisition process together with Italy's worsening economic environment has led to a significant deterioration in the Group's balance sheet.

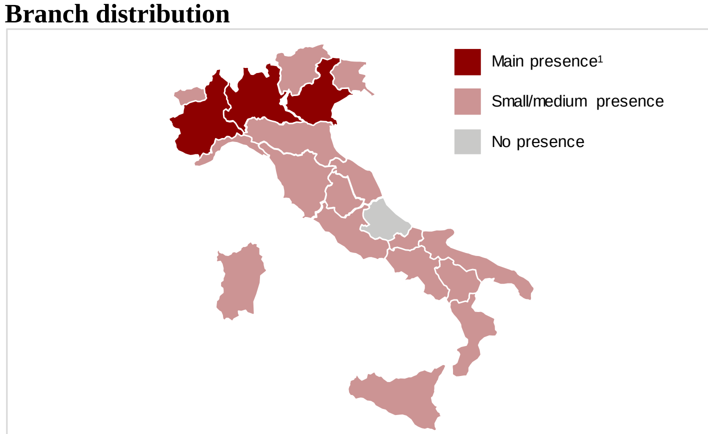
Since 2010, however, Banco Popolare has undergone a restructuring process with the aim to strengthen its balance sheet, as well as streamline the Group's organization. As part of this process, Banco Popolare has (1) rationalized its activities with the sale of non-strategic businesses and the merger of local banks into a centralized holding company; (2) optimized its distribution network through the closure of more than 300 branches, the reduction of approx. 2,700 FTE employees and the implementation of the Hub & Spoke model; (3) strengthened its capital position with two capital increases for a total of EUR 3.5 billion and asset disposal; (4) strengthened risk management, including increase in provisioning levels and run-off of Banca Italease.

Despite the progress achieved thus far, the Bank remains challenged by the high stock of NPLs. In DBRS' view, reducing this stock represents the key priority for the Bank over the medium term. Meanwhile, as a mutual bank with total assets above EUR 8 billion, Banco Popolare will need to transform into a joint-stock company in 2016. In DBRS' view, the legal shift is likely to promote further improvements in corporate governance and efficiency, as well as strengthen the Bank's ability to raise capital and/or participate in possible consolidation.

**Total assets and number of branches**




**Branch distribution**




*Source: Company data, DBRS*
*Note: (1) Above 12% of branch concentration*

# Earnings Power

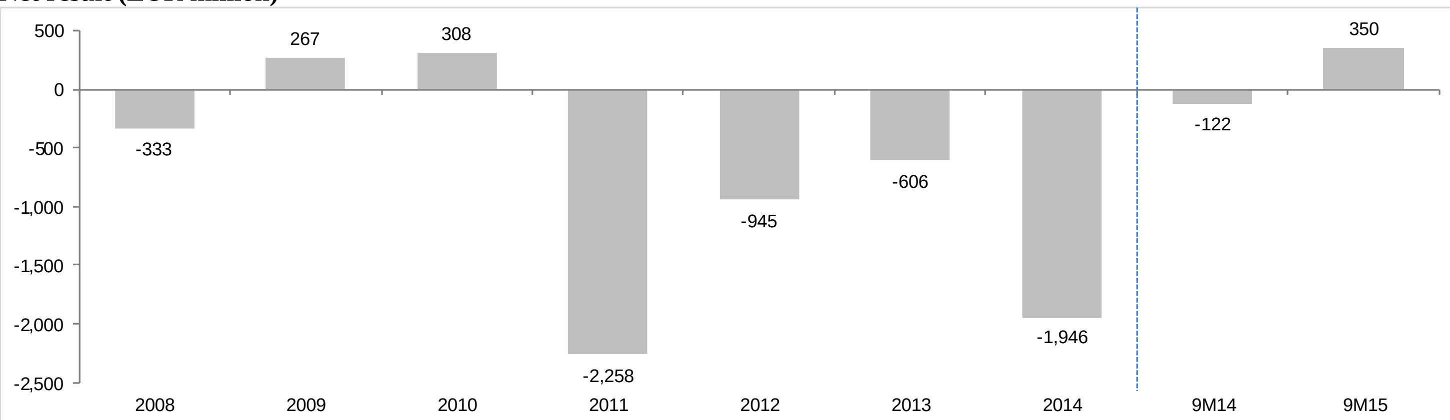
In DBRS' view, Banco Popolare's earning profile has recovered somewhat, but remains generally weak. Goodwill / Purchase Price Allocation impairments on previous acquisitions, combined with restructuring costs, as well as increased credit provisions, have all contributed to the Bank's negative performance during the period 2011-2014. Results have somewhat improved in 2015 on the back of lower provisions, resilient commissions and tight cost control. Going forward, performance is likely to remain modest mainly as a result of high credit costs.

Banco Popolare continues to face challenges in improving its net interest income. In line with many peers, Banco Popolare's core customer spreads remained under pressure due to the low interest rate environment, as well as high market competition and modest lending volumes. In 2015, however, Banco Popolare was able to offset some of this pressure thanks to lower funding costs. Total NII was broadly stable at EUR 1,177 million for 9M2015, from EUR 1,164 million for 9M2014. In parallel, net fees and commissions remained resilient. The increase in fees on asset management products helped to offset the decline in commissions from current accounts and loans in 2015.

Banco Popolare's business plan has placed particular emphasis on efficiency improvements. The Bank's total operating expenses decreased to EUR 2,465 million in 2014 (-15% versus 2010) as Banco Popolare reduced the size of its branch network and workforce. Focus on cost control continued in 2015, with further net headcount exits of 225 FTE for the 9M2015. Going forward, further improvement in cost efficiency, and in commission income, will be needed to offset ongoing pressure on NII and high cost of credit.

Banco Popolare's provisioning levels for credit risk were strongly impacted by the results of the ECB comprehensive assessment in 2014. The Bank reported total provisions of EUR 3,476 million at year-end 2014, more than double the EUR 1,663 million in 2013. For 9M2015, provisions were significantly lower at EUR 575 million, with annualized cost of credit down to 97 basis points (bps), from 435 bps at end-2014, according to DBRS' calculations. Despite the improvement, cost of credit is likely to remain high given the Bank's high stock of NPLs and the still fragile economic environment

**Net result (EUR million)**




*Source: Company data, DBRS*

# Risk Profile

**Credit risk**

Banco Popolare's risk profile mainly reflects credit risk linked to household and SME lending. The portfolio appears fairly diversified, although the total exposure to construction and real estate remains material. The Bank's lending book has weakened during the crisis. Banco Popolare's total impaired lending ratio increased to 24.8% of total gross loans in 3Q15 from 14.2% in 2011. Most affected were real estate and domestic oriented SMEs. The Group's asset quality also reflects legacy issues from Banca Italease which contributed approximately 18% of Banco Popolare's total impaired loans at September 2015.

Nonetheless, DBRS notes that Banco Popolare's asset quality began to stabilize in 2015 as a result of lower inflows into impaired loans. Moreover, in June and October 2015, the Bank successfully sold two portfolios of unsecured bad loans for a combined nominal value of approximately EUR 1.2 billion without any major impact on the Bank's results.

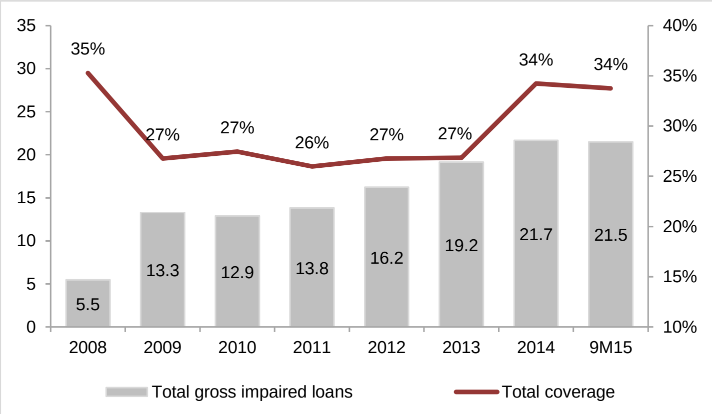
During 2014, Banco Popolare's credit portfolio and collateral valuation were reviewed by the ECB. This was as part of the comprehensive assessment (asset quality review and stress test) concluded for the largest European banks ahead of the formal transfer of direct supervision to the ECB. For Banco Popolare, the ECB AQR resulted in a provisioning shortfall of approximately EUR 1.6 billion based on balance sheet data at YE 2013. These provisions were fully incorporated within the Bank's FY 2014 results. As a result, Banco Popolare's total coverage ratio strengthened to 34% (or 45% including write-offs) in September 2015, from 27% (or 38%) in September 2014, while cash coverage for bad debts improved to 41% (or 58%) at September 2015, from 37% at September 2014.

Despite the strengthened levels, Banco Popolare's total cash coverage ratio remains below the peer group average. At September 2015, Banco Popolare's stock of net impaired loans amounted to EUR 14 billion, corresponding to approximately 243% of the Bank's CET1 capital in September 2015. We note, however, that the Bank is increasing its focus on risk management and asset quality to enhance future non performing disposals.

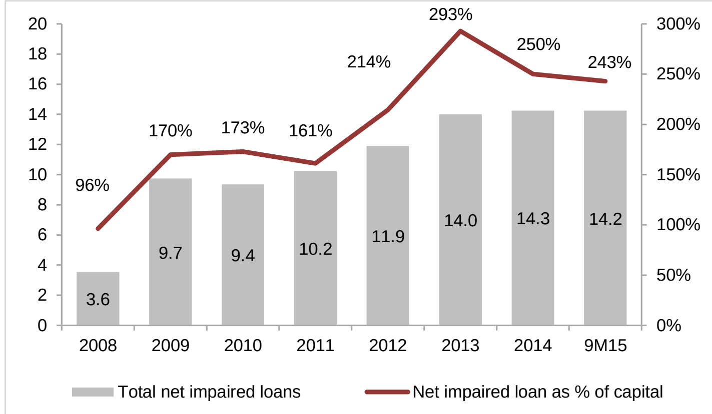
**Sovereign risk**

Typical of many Italian banking institutions, Banco Popolare maintains significant exposure to Italian government bonds. This portfolio amounted to circa EUR 18.1 billion in September 2015, and represented circa 3x the Bank's absolute level of CET1. In the current credit and funding environment, DBRS notes that the investment in domestic government bonds has helped the profitability and liquidity profile of the Bank. However, large holdings of sovereign securities pose potential risks for Banco Popolare, should sovereign yields surge again. Additional pressures could arise from the potential increase in capital requirements for sovereign exposures, including concentration risk, as well as from the upcoming EBA stress test in 2016.

**Gross impaired loans (EUR billion) and coverage (%)**




**Net impaired loans (EUR billion) and as a % of capital**




*Source: Company data, DBRS; Note: Core Tier 1 % from 2008-2013, CET1% from 2014*

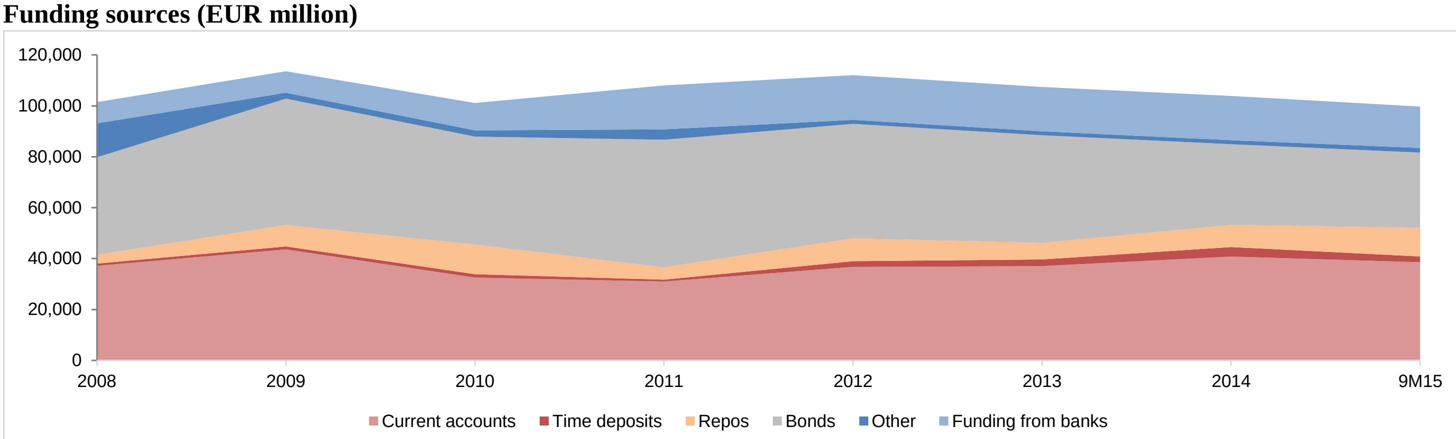
# Funding and Liquidity

Banco Popolare's funding profile is underpinned by its large retail customer base, which contributed approximately 70% of the Bank's total balance sheet funding at September 2015. Total retail funding decreased by 10% versus YE 2014 as part of Banco Popolare's strategy to optimize funding costs. During 2015, the Bank reduced its exposure to time deposits and retail bonds which were in part replaced by repos and certificates.

Concurrently, the Bank maintained access to the wholesale market with the issuance of senior unsecured bonds for a total consideration of EUR 1.5 billion, as well as covered bonds for EUR 1 billion as of September 2015. In addition, Banco Popolare continued to benefit from access to the ECB funding. At September 2015, Banco Popolare total exposure to the ECB amounted to EUR 11.9 billion, corresponding to approx. 10% of the Bank's total assets, entirely represented by TLTRO funds.

In DBRS' view, the Bank maintains an adequate liquidity buffer. As of end-October 2015, Banco Popolare reported total unencumbered assets (net of applicable haircuts) of EUR 14.5 billion, which exceeds the Bank's total volume of bond maturities scheduled for 2016 (EUR 7 billion, of which EUR 3.7 billion wholesale and EUR 3.3 billion retail). In addition, under Basel III, the Bank reported a liquidity coverage ratio above 100%, whereas the net stable funding ratio was approximately 95% at September 2015.

**Funding sources (EUR million)**




*Source: Company data, DBRS*

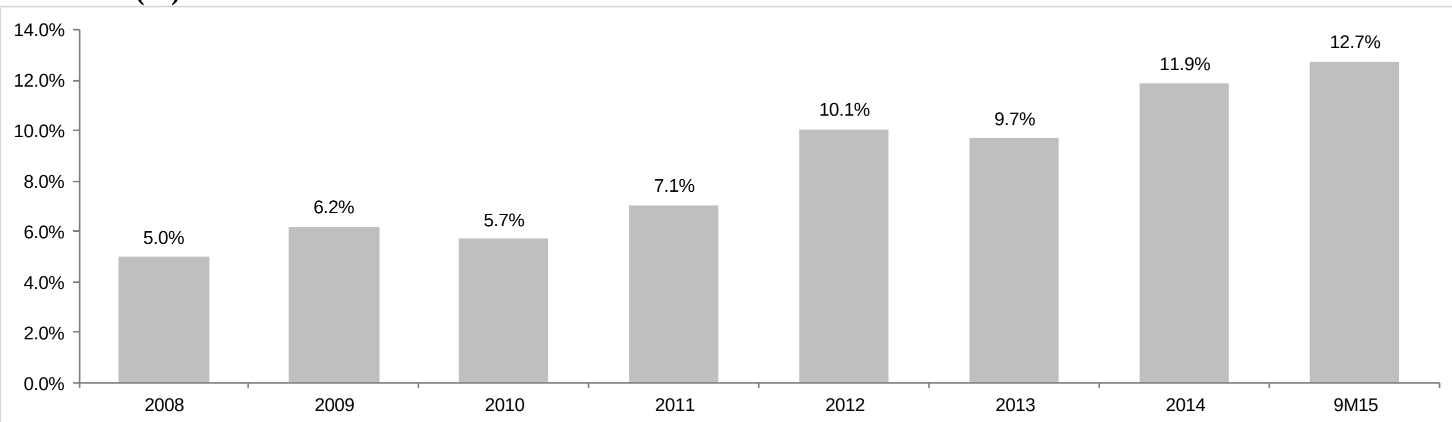
# Capitalisation

Banco Popolare's regulatory capital ratios improved during the period 2011-2015 thanks to various capital actions including two rights issues in 2011 and 2014 for a total consideration of EUR 3.5 billion, as well as Group's reorganization. Further improvements in the Bank's capital ratios were achieved via reduction in total RWAs following the approval the AIRB model for credit and market risks in 2012, as well as deleveraging. In October 2014, the Bank passed retroactively the ECB/EBA AQR and stress tests with a CET1 post AQR of 11.5% (versus 8% minimum) and CET1 of 8.29% under the adverse scenario (versus 5.5% minimum).

As of September 2015, Banco Popolare reported a CET1 ratio of 12.7% (or 12.2% Basel III fully loaded), which compares favourably with its Italian peers, and provides a 315 bps buffer (or EUR 1.5 billion) over the 9.55% minimum threshold set by the ECB under the SREP process in November 2015. In addition, at September 2015, the Bank reported total capital ratio and leverage ratio of 15.8% and 5.0%, respectively (or 15.6% and 4.9% Basel III fully loaded). During 4Q 2015, the Bank's capital ratios improved further following the disposal of the equity stakes in ICBPI and Arca SGR which contributed approx. 88 bps to the Bank's CET1 phased-in at September 2015. These actions will help Banco Popolare to offset the negative impact from the expected change in the PD and LGD for retail and corporate credit risk.

Despite the improvements achieved thus far, Banco Popolare's capital position remains vulnerable given the Bank's high stock of net impaired loans (EUR 14 billion).

**CET1 ratio (%)**




*Source: Company data, DBRS; Note: Core Tier 1 % from 2008-2013, CET1 % from 2014*

| | 2015H1 | | 2014Y | | 2013Y | | 2012Y | | 2011Y | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Banco Popolare Società Cooperativa** | 30/06/2015 | | 31/12/2014 | | 31/12/2013 | | 31/12/2012 | | 31/12/2011 | |
| | EUR | | EUR | | EUR | | EUR | | EUR | |
| **EUR Millions** | IFRS | | IFRS | | IFRS | | IFRS | | IFRS | |
| **Balance Sheet** | | | | | | | | | | |
| Cash and deposits with central banks | 549 | 0.44% | 620 | 0.50% | 640 | 0.51% | 672 | 0.51% | 578 | 0.43% |
| Lending to/deposits with credit institutions | 4,393 | 3.51% | 5,059 | 4.11% | 3,753 | 2.99% | 4,472 | 3.39% | 8,687 | 6.48% |
| Financial Securities* | 25,203 | 20.16% | 22,567 | 18.34% | 20,139 | 16.06% | 17,652 | 13.38% | 13,949 | 10.40% |
| - Trading portfolio | 5,072 | 4.06% | 4,095 | 3.33% | 3,998 | 3.19% | 4,688 | 3.55% | 3,901 | 2.91% |
| - At fair value | 19 | 0.01% | 6 | 0.00% | 2 | 0.00% | 9 | 0.01% | 162 | 0.12% |
| - Available for sale | 14,308 | 11.44% | 13,518 | 10.98% | 11,941 | 9.52% | 12,938 | 9.81% | 9,823 | 7.32% |
| - Held-to-maturity | 5,805 | 4.64% | 4,948 | 4.02% | 4,198 | 3.35% | 17 | 0.01% | 63 | 0.05% |
| - Other | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Financial derivatives instruments | 3,248 | 2.60% | 3,722 | 3.02% | 3,880 | 3.09% | 6,660 | 5.05% | 5,537 | 4.13% |
| - Fair Value Hedging Derivatives | 529 | 0.42% | 739 | 0.60% | 613 | 0.49% | 905 | 0.69% | 692 | 0.52% |
| - Mark to Market Derivatives | 2,719 | 2.17% | 2,983 | 2.42% | 3,267 | 2.61% | 5,755 | 4.36% | 4,844 | 3.61% |
| Gross lending to customers | 87,917 | 70.32% | 87,661 | 71.22% | 91,583 | 73.03% | 96,223 | 72.94% | 97,510 | 72.70% |
| - Loan loss provisions | 7,645 | 6.11% | 7,838 | 6.37% | 5,434 | 4.33% | 4,742 | 3.59% | 4,115 | 3.07% |
| Insurance assets | NA | - | NA | - | NA | - | NA | - | NA | - |
| Investments in associates/subsidiaries | 1,085 | 0.87% | 1,061 | 0.86% | 1,034 | 0.82% | 848 | 0.64% | 1,180 | 0.88% |
| Fixed assets | 2,130 | 1.70% | 2,140 | 1.74% | 2,052 | 1.64% | 2,105 | 1.60% | 2,147 | 1.60% |
| Goodwill and other intangible assets | 2,049 | 1.64% | 2,050 | 1.67% | 2,299 | 1.83% | 2,325 | 1.76% | 2,355 | 1.76% |
| Other assets | 6,092 | 4.87% | 6,039 | 4.91% | 5,455 | 4.35% | 5,707 | 4.33% | 6,300 | 4.70% |
| **Total assets** | **125,021** | **100.00%** | **123,082** | **100.00%** | **125,402** | **100.00%** | **131,921** | **100.00%** | **134,127** | **100.00%** |
| Total assets (USD) | 139,082 | | 148,991 | | 172,777 | | 173,970 | | 174,190 | |
| | | | | | | | | | | |
| Loans and deposits from credit institutions | 17,730 | 14.18% | 17,384 | 14.12% | 17,403 | 13.88% | 17,576 | 13.32% | 14,433 | 10.76% |
| Repo Agreements in Deposits from Customers | 10,975 | 8.78% | 8,672 | 7.05% | 6,489 | 5.17% | 8,966 | 6.80% | 5,353 | 3.99% |
| Deposits from customers | 43,967 | 35.17% | 46,107 | 37.46% | 41,228 | 32.88% | 40,569 | 30.75% | 41,269 | 30.77% |
| - Demand | 39,033 | 31.22% | 40,806 | 33.15% | 37,045 | 29.54% | 36,736 | 27.85% | 37,924 | 28.27% |
| - Time and savings | 2,969 | 2.37% | 3,732 | 3.03% | 2,619 | 2.09% | 2,251 | 1.71% | 1,427 | 1.06% |
| Issued debt securities | NA | - | 28,204 | 22.91% | 38,765 | 30.91% | 41,348 | 31.34% | 48,739 | 36.34% |
| Financial derivatives instruments | 7,559 | 6.05% | 6,651 | 5.40% | 4,508 | 3.59% | 6,334 | 4.80% | 5,064 | 3.78% |
| - Fair Value Hedging Derivatives | 769 | 0.61% | 592 | 0.48% | 448 | 0.36% | 606 | 0.46% | 451 | 0.34% |
| - Other | 6,790 | 5.43% | 6,059 | 4.92% | 4,060 | 3.24% | 5,727 | 4.34% | 4,612 | 3.44% |
| Insurance liabilities | NA | - | NA | - | NA | - | NA | - | NA | - |
| Other liabilities | 7,359 | 5.89% | 4,457 | 3.62% | 4,941 | 3.94% | 4,508 | 3.42% | 4,984 | 3.72% |
| - Financial liabilities at fair value through P/L | 13,341 | 10.67% | 15,025 | 12.21% | 21,951 | 17.50% | 22,836 | 17.31% | 25,591 | 19.08% |
| Subordinated debt | NA | - | 3,531 | 2.87% | 3,544 | 2.83% | 2,913 | 2.21% | 3,823 | 2.85% |
| Hybrid Capital | NA | - | NA | - | NA | - | 727 | 0.55% | 1,037 | 0.77% |
| Equity | 8,486 | 6.79% | 8,076 | 6.56% | 8,523 | 6.80% | 8,981 | 6.81% | 9,423 | 7.03% |
| **Total liabilities and equity funds** | **125,021** | **100.00%** | **123,082** | **100.00%** | **125,402** | **100.00%** | **131,921** | **100.00%** | **134,127** | **100.00%** |
| | | | | | | | | | | |
| **Income Statement** | | | | | | | | | | |
| Interest income | 1,445 | | 3,263 | | 3,576 | | 4,031 | | 4,200 | |
| Interest expenses | 656 | | 1,706 | | 1,929 | | 2,286 | | 2,392 | |
| Net interest income and credit commissions | 789 | 40.45% | 1,557 | 43.75% | 1,647 | 43.96% | 1,745 | 60.43% | 1,808 | 48.61% |
| Net fees and commissions | 771 | 39.53% | 1,385 | 38.94% | 1,387 | 37.02% | 1,363 | 47.18% | 1,272 | 34.20% |
| Trading / FX Income | 56 | 2.86% | 138 | 3.89% | 184 | 4.91% | 288 | 9.98% | 26 | 0.70% |
| Net realised results on investment securities (available for sale) | 64 | 3.29% | 54 | 1.51% | 131 | 3.51% | 17 | 0.60% | 37 | 1.00% |
| Net results from other financial instruments at fair value | 4 | 0.20% | -46 | -1.29% | -129 | -3.45% | -507 | -17.57% | 523 | 14.05% |
| Net income from insurance operations | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Results from associates/subsidiaries accounted by the equity method | 61 | 3.14% | 90 | 2.53% | 68 | 1.81% | -485 | -16.80% | -300 | -8.08% |
| Other operating income (incl. dividends) | 205 | 10.51% | 380 | 10.67% | 458 | 12.24% | 468 | 16.19% | 354 | 9.51% |
| Total operating income | 1,950 | 100.00% | 3,558 | 100.00% | 3,747 | 100.00% | 2,888 | 100.00% | 3,719 | 100.00% |
| Staff costs | 680 | 55.02% | 1,423 | 57.72% | 1,435 | 55.45% | 1,369 | 55.56% | 1,487 | 55.74% |
| Other operating costs | 490 | 39.61% | 897 | 36.39% | 997 | 38.55% | 941 | 38.20% | 1,009 | 37.83% |
| Depreciation/amortisation | 66 | 5.37% | 145 | 5.89% | 155 | 6.00% | 154 | 6.23% | 172 | 6.43% |
| Total operating expenses | 1,236 | 100.00% | 2,465 | 100.00% | 2,587 | 100.00% | 2,464 | 100.00% | 2,668 | 100.00% |
| **Pre-provision operating income** | **714** | | **1,093** | | **1,159** | | **425** | | **1,051** | |
| Loan loss provisions** | 420 | | 3,586 | | 1,839 | | 1,310 | | 824 | |
| **Post-provision operating income** | 294 | | -2,493 | | -680 | | -885 | | 227 | |
| Impairment on tangible assets | NA | | 68 | | 7 | | 30 | | NA | |
| Impairment on intangible assets | 0 | | 239 | | 0 | | 20 | | 2,767 | |
| Other non-operating items*** | 0 | | 0 | | 0 | | 0 | | -8 | |
| Pre-tax income | 294 | | -2,800 | | -687 | | -935 | | -2,548 | |
| (-)Taxes | -2 | | -815 | | -96 | | -19 | | -294 | |
| (-)Other After-tax Items (Reported) | 0 | | 0 | | 0 | | 0 | | 0 | |
| (+)Discontinued Operations (Reported) | -8 | | 0 | | -29 | | -33 | | 12 | |
| (-)Minority interest | -5 | | -39 | | -14 | | -5 | | 16 | |
| **Net income** | **293** | | **-1,946** | | **-606** | | **-945** | | **-2,258** | |
| Net income (USD) | 327 | | -2,585 | | -805 | | -1,214 | | -3,144 | |

*Includes derivatives when breakdown unavailable, **LLP includes Impairments on financial assets, ***Incl. Other Provisions

| Off-balance sheet and other items | | | | | |
|---|---|---|---|---|---|
| Asset under management | 35,263 | 34,153 | 28,762 | 26,692 | 26,511 |
| Derivatives (notional amount) | NA | 176,603 | 251,486 | 287,317 | 299,724 |
| BIS Risk-weighted assets (RWA) | 48,080 | 47,987 | 49,319 | 55,105 | 90,034 |
| No. of employees (end-period) | 16,949 | 17,179 | 17,671 | 18,394 | 18,937 |

| Earnings and Expenses | | | | | |
|---|---|---|---|---|---|
| ***Earnings*** | | | | | |
| Net interest margin [1] | 1.43% | 1.39% | 1.41% | 1.45% | 1.54% |
| Yield on average earning assets | 2.59% | 2.87% | 3.02% | 3.32% | 3.50% |
| Cost of interest bearing liabilities | 2.13% | 1.86% | 1.98% | 2.22% | 2.19% |
| Pre-provision earning capacity (total assets basis) [2] | 1.14% | 0.87% | 0.89% | 0.32% | 0.77% |
| Pre-provision earning capacity (risk-weighted basis) [3] | 2.93% | 2.16% | 2.15% | 0.61% | 1.11% |
| Net Interest Income / Risk Weighted Assets | 3.28% | 3.24% | 3.34% | 3.17% | 2.01% |
| Non-Interest Income / Total Revenues | 59.55% | 56.25% | 56.04% | 39.57% | 51.39% |
| Post-provision earning capacity (risk-weighted basis) | 1.21% | -4.93% | -1.26% | -1.27% | 0.24% |
| ***Expenses*** | | | | | |
| Efficiency ratio (operating expenses / operating income) | 63.38% | 69.28% | 69.05% | 85.30% | 71.74% |
| All inclusive costs to revenues [4] | 63.38% | 71.17% | 69.24% | 86.33% | 72.09% |
| Operating expenses by employee | 145,864 | 143,482 | 146,412 | 133,932 | 140,891 |
| Loan loss provision / pre-provision operating income | 58.85% | 328.05% | 158.64% | 308.51% | 78.42% |
| Provision coverage by net interest income | 187.68% | 43.40% | 89.55% | 133.23% | 219.36% |
| ***Profitability Returns*** | | | | | |
| Return on equity | 6.96% | -24.13% | -7.42% | -10.97% | -24.99% |
| Return on average total assets | 0.47% | -1.55% | -0.46% | -0.70% | -1.66% |
| Return on average risk-weighted assets | 1.20% | -3.85% | -1.13% | -1.35% | -2.39% |
| Internal capital generation [5] | 2.93% | -22.83% | -7.35% | -11.26% | -21.58% |

| Growth | | | | | |
|---|---|---|---|---|---|
| Loans | 1.12% | -7.34% | -5.83% | -2.05% | -1.13% |
| Deposits | 0.60% | 14.80% | -3.67% | 6.25% | -14.59% |
| Net interest income | 2.58% | -5.51% | -5.62% | -3.46% | -0.38% |
| Fees and commissions | 7.65% | -0.12% | 1.80% | 7.14% | 0.39% |
| Expenses | 2.54% | -4.73% | 5.02% | -7.66% | -7.78% |
| Pre-provision earning capacity | 4.47% | -5.71% | 173.05% | -59.60% | 0.86% |
| Loan-loss provisions | -33.71% | 94.97% | 40.41% | 58.95% | -5.62% |

| Risks | | | | | |
|---|---|---|---|---|---|
| RWA% total assets | 38.46% | 38.99% | 39.33% | 41.77% | 67.13% |
| ***Credit Risks*** | | | | | |
| Impaired loans % gross loans | 24.29% | 24.71% | 20.92% | 16.89% | 14.18% |
| Loss loan provisions % impaired loans | 33.93% | 34.22% | 26.85% | 26.76% | 25.98% |
| Impaired loans (net of LLPs) % equity | 166.26% | 176.44% | 164.87% | 144.69% | 122.44% |
| ***Liquidity and Funding*** | | | | | |
| Customer deposits % total funding | NA | 48.42% | 40.84% | 39.62% | 38.12% |
| Total wholesale funding % total funding [6] | NA | 51.58% | 59.16% | 60.38% | 61.88% |
| - Interbank % total funding | NA | 18.26% | 17.24% | 17.16% | 13.33% |
| - Debt securities % total funding | NA | 29.62% | 38.40% | 40.38% | 45.02% |
| - Subordinated debt % total funding | NA | 3.71% | 3.51% | 2.84% | 3.53% |
| Short-term wholesale funding % total wholesale funding | NA | 47.75% | 46.42% | 40.53% | 33.82% |
| Liquid assets % total assets | 24.11% | 22.95% | 19.56% | 17.28% | 17.31% |
| Net short-term wholesale funding reliance [7] | -13.09% | -5.05% | 3.16% | 2.07% | -0.50% |
| Adjusted net short-term wholesale funding reliance [8] | -13.09% | -47.24% | -39.00% | -38.93% | -38.62% |
| Customer deposits % gross loans | 50.01% | 52.60% | 45.02% | 42.16% | 42.32% |

| Capital [9] | | | | | |
|---|---|---|---|---|---|
| Tier 1 | 12.25% | 12.26% | 10.60% | 11.18% | 8.34% |
| CET 1 (As-reported) [10] | 12.25% | 11.87% | 9.70% | 10.07% | 7.05% |
| Tangible Common Equity / Tangible Assets | 5.18% | 4.97% | 4.75% | 4.83% | 5.05% |
| Total Capital | 14.21% | 14.62% | 13.34% | 13.98% | 11.69% |

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-weighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] (Net income - dividends) % shareholders' equity at t-1.
[6] Wholesale funding excludes corporate deposits.
[7] (Short-term wholesale funding - liquid assets) % illiquid assets
[8] (Short-term wholesale funding - liquid assets- loans maturing within 1 year) % illiquid assets
[9] Capital ratios of Interim results exclude profits for the year
[10] Core Tier 1 % from 2008-2013, CET 1% from 2014
* Interim information is annualised where needed.

# Methodologies

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (December 2015). Other applicable methodologies include the DBRS Criteria – Support Assessments for Banks and Banking Organisations (December 2015) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, hybrid, Preferred & Contingent Capital Securities (February 2015).

# Ratings

| Debt | Rating | Rating Action | Trend |
|---|---|---|---|
| Short-Term Debt and Deposit | R-2 (middle) | Trend Change | Stable |
| Issuer Rating | BBB (low) | Trend Change | Stable |
| Senior Long-Term Debt and Deposit | BBB (low) | Trend Change | Stable |

# Rating History

| | Current | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Short Term Debt and | R-2 (middle) | R-2 (middle) | R-2 (middle) | NA | NA | NA |
| Issuer Rating | BBB (low) | BBB (low) | BBB | NA | NA | NA |
| Senior Long-Term Debt and | BBB (low) | BBB (low) | BBB | NA | NA | NA |

# Previous Actions

- DBRS Confirms Banco Popolare Rating at BBB (low); Changes Trend to Stable, December 15, 2015
- DBRS Downgrades 31 European Banking Groups due to Removal of Systemic Support Uplift, September 29, 2015
- DBRS Assigns BBB Rating to Banco Popolare, Trend Negative, December 15, 2014

# Related Research

- DBRS: Volatile Markets Present Further Challenges for Italian Banks, January 25, 2016
- DBRS comments on Italian Banks 9M 15 Results, November 17, 2015
- DBRS Comments on Bill to Reform Italian Popolari Banks, February 4, 2015

Notes:
All figures are in EUR unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.