

# NEWS RELEASE

Verona 11 February 2015

## **Banco Popolare approves the Consolidated Financial Statements as at 31 December 2014**

### **Capital position:**

- *“Phase-in” CET 1 ratio as at 31 December 2014 at 11.9%;*
- *Pro-forma “phase-in” CET 1 ratio as at 31 December (factoring in the effect of the future merger of Banca Italease) at 12.0%;*
- *“Fully-loaded” CET 1 ratio as at 31 December 2014 at 11.3% (the pro-forma figure on the same date is 11.5%);*
- *Basel 3 “phase-in” leverage ratio at 5.0%;*
- *Basel 3 “fully-loaded” leverage ratio at 4.7%.*

### **Liquidity profile:**

- *In line with Basel 3 at end of period targets: LCR >100% and NSFR >100%;*
- *Core deposits increased by 9.1% over 31 December 2013.*

### **Credit Risk:**

- *Significant increase in coverage levels of both non-performing loans (44.6% vs. 38.4% in September 2014 including write-offs) and performing loans (0.73% vs. 0.42% in September 2014);*
- *Decline in net non-performing loans of 4.6% over the quarter;*
- *Erased shortfall on expected losses after full implementation of the Asset Quality Review results.*

### **Key P&L indicators:**

- *Total income at 3,386 million (-5.5% vs. 31 December 2013) with a limited decline in interest income and stable commissions;*
- *Operating costs at 2,269 million Net of non-recurring charges incurred for the redundancy fund (138 million) and a real property impairment (68 million), operating costs report a decline of 1.4%;*
- *Cost of credit at 3.561 million (2,496 in Q4 alone), corresponding to 406 basis points per annum, after the implementation of all the recommendations set forth by the Asset Quality Review*

**Loss for the period** of 1,946 million (1,920 million net of FVO) as a result of the extraordinary impairments of loans and intangibles recognized in Q4.

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In today's meeting, the Board of Directors of Banco Popolare has approved the Group's Consolidated Financial Statements as at 31 December 2014.

In keeping with the requests raised by the Regulator, after the capital strengthening achieved in the second quarter through the capital increase and the merger of Credito Bergamasco, and the authorization to adopt our own internal models to calculate capital requirements for operational risks, as well as having passed the Comprehensive Assessment exercise conducted by the European Central Bank (ECB) by a wide margin, delivering an estimated regulatory capital surplus of about 1.2 billion, the Group closely examined the detailed results of the Asset Quality Review (AQR) that indicated prudential adjustments totaling 1,603 million (gross of tax effect), almost fully ascribable to the coverage of customer loans (1,561 million).

Based on this analysis, we decided to focus on the current ordinary credit classification and valuation processes and to adopt - within the range of estimate approaches allowed by accounting standards - partly different valuation models and parameters than those used up to now. In keeping with the Regulator's wishes, the introduced changes were aimed at eliminating as much as possible the misalignments between valuations for reporting purposes and "ECB thresholds"<sup>1</sup>. In Q4, the changes introduced upon preparing the financial statements, coupled with the usual revisions of expected losses based on the latest available information, led to the recognition of net loan loss provisions of 2.5 billion, that - combined with the recognition of the impairment of goodwill and other intangibles - generated a net loss for the period of 1.8 billion, and hence a net loss for the year of 1.9 billion.

Although the adopted conservative valuation choices generated a significant negative impact on profitability for the period, their effect on the Common Equity Tier 1 (CET1) Capital and its "fully-loaded"<sup>2</sup> ratio was more marginal. In Q4, the "fully-loaded" CET1 capital declined by 358 million, and correspondingly the CET1 ratio fell by 35 bps at 11.3% from 11.7% at 30 September 2014. This is due to the fact that credit exposures, based on prudential metrics, were already measured at a lower level compared with their stated value using the different rules set forth by reference accounting standards, giving rise to what is known as a "shortfall"<sup>3</sup>. The decision to raise the stated loan coverage despite its negative effect on net income for the year was significantly compensated for by the erasure of the shortfall (which at 30 September 2014 was 1.3 billion).

Even more so, the same holds true for goodwill and other intangibles that have always been entirely deducted from regulatory capital.

The income sacrifice caused by the full implementation of the AQR quantitative findings in the valuation models - that necessarily differ from prudential models - enables the Group to gain its position in the new supranational competitive arena. Its capital profile continues to be particularly solid after the significant increase in the average coverage of credit exposures with regard to both non-performing and performing loans.

## **Operating performance**

**Net interest income** stood at 1,555.6 million, down by 5.5% compared with the prior year (1,647.0 million), due to the reduction in gross average loan volume together with the negative performance of the liability spread, driven by the marked fall of Euribor rates. The Q4 2014 contribution was 388.3 million, down from 396.6 in Q3, but in line with Q4 2013 (390.2 million). Net of the contribution of Banca Italease (which in Q3 2014 included 7.4 million of non-recurring items), net interest income remained basically stable quarter-on-quarter, as the mark-up reduction (-11 b.p.), caused by the still high competition on the

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<sup>1</sup> Parameter estimates used for prudential purposes by the ECB in the Asset Quality Review exercise.

<sup>2</sup> The term "fully-loaded" indicates that prudential regulatory capital data is measured based on currently effective rules, without considering the "phase-in" arrangements that gradually spread the effects of the changeover from Basel II to Basel III regulations over time.

<sup>3</sup> The term "shortfall" indicates the difference between the expected credit loss measured based on prudential regulations and the carrying amount of the expected credit loss based on IAS 39, that requires to refer to incurred losses. The shortfall (expected loss > incurred loss) based on fully-loaded Basel III regulations must be completely and immediately deducted from the CET1 Capital.

lending side, has been offset by a net improvement of the mark-down (+ 7 b.p.), and by lower interest expense paid on wholesale funding.

**Income from equity method investments** came in at +90.1 million, compared with the -27.4 million loss reported in the prior year (+25.0 million in Q4 2014). The positive contribution to the 2014 result came primarily from the equity stakes held in Popolare Vita (+36.9 million vs. 25.4 million in 2013), in Agos Ducato (+39.7 million compared with a negative contribution of 51.2 million reported in 2013), in Avipop Assicurazioni (+12.1 million vs. 4.5 million in the prior year), and Energreen (+1 million compared with the 1.8 million loss reported at the end of December 2013). Alba Leasing made a marginal contribution of -0.2 million (-4.7 million in 2013).

As a result of the above dynamics, **net interest, dividend and similar income** came in at 1,645.6 million, up by 1.6% from 1,619.6 million in 2013.

**Net commissions** stood at 1,385.4 million, basically in line with the prior year (1,387.1 million), with a Q4 contribution of 310.5 million, down compared with Q3 (356.0 million), but in line with Q4 2013 (319.3 million). The commission level reached last year could be maintained thanks to the growth in fees and commissions from management, brokerage and advisory services, running at 664.0 million, up by 3.9% with respect to 2013, driven by the distribution of asset management products, and in particular the sale of insurance products. This contribution, coupled with the reduction in commission expense paid to the Bank of Italy for the guarantees issued against ECB financing, offset the decline in commissions from administration and management of checking accounts and credit facilities.

**Other revenues** added up to 138.9 million, with a marked reduction from 189.2 million reported in the prior year, and a Q4 contribution of 26.3 million compared with 38.5 million in Q3. The decline was mainly driven by the decline in fixed commissions ("*commissioni di istruttoria veloce*") charged to customers, as a result among other things of the decrease in loan volume.

For a better and ready understanding of the contribution of net financial income, **the effects of rating changes on debt securities issued measured at fair value (FVO)** are shown under a separate line-item of the reclassified income statement, right below income or loss from continuing operations. As a result of Banco's credit rating upgrade, the FVO in 2014 was negative by 38.8 million (-26.0 million after-tax). In 2013 the contribution, again a negative one, had been -143.2 million (-95.8 million after-tax).

The **net financial income net of FVO** came in at 215.9 million, compared with 388.7 million in the prior year, with a negative Q4 2014 contribution of -1.9 million. When comparing the two years' results, note that in the prior year this line-item benefitted from a positive effect of 37.6 million generated by the buy-back of debt securities issued by the Group, as well as from greater capital gains totaling 77.6 million, generated by the sale of financial assets available for sale as compared with those realized in 2014. Moreover, the contribution from the business generated by the subsidiary Banca Aletti, amounting to 116.2 million, has declined compared with the 181.4 million in 2013, as a result of the slowing down of the financial products structuring business, due to the stronger focus on asset management and also of the fact of having privileged a production more focused on the issuance of certificates, translating into a greater contribution by the bank at net interest income level, to the detriment of this P&L item.

**Other operating income** (other than net interest, dividend and similar income) therefore added up to 1,740.2 million vs. 1,965.0 million in the prior year, with a Q4 contribution of 334.9 million. **Total income** (interest, dividend and similar income + other operating income) came in at 3,385.9 million compared with 3,584.6 in the prior year (-5.5%)

**Personnel expenses** stood at 1,432.3 million, with a Q4 contribution of 376.1 million, down by 1.0% from 1,446.7 million last year. The expenses charged to income for the year include the estimated charge generated by the agreement met with Trade Unions for the exit of 578 employees (138.2 million). These charges have been partly offset by a reduction in variable wages and other allocated charges when preparing the financial statements last year. Also the 2013 figure included similar charges totaling 141.7 million for the future exit of 758 employees, and also in this case they had been partly offset through specific containment actions on the variable wages of all employees. Net of non-recurring items, 2014 personnel expenses are basically in line with last year's. At 31 December 2014 total headcount stood at 17,179 FTEs, as compared with 17,671 employees at 31 December 2013, adjusted for comparison (17,543 at 30 September 2014).

The disciplined expense management affected also **other administrative expenses**, which at 31 December 2014 added up to 645.1 million, down by 3.3% from 667.1 million in 2013, with a Q4 contribution of 135.5 million over the 170.9 million in Q3. The expense reduction benefitted also from the recognition of a reduction in liabilities earmarked the previous year, amounting to 7 million, and the effect has already been recorded in Q1. **Depreciation and amortization** for the period amounted to 191.9 million vs. 140.0 million at 31 December 2013, with a Q4 contribution of 86.8 million against 31 million in Q3. The year-on-year increase was driven by impairments reported in Q4 (-50.5 million) and Q1 (-17.5 million) referring to certain real estate assets classified as property investments, to bring their book value in line with the estimated recoverable amount based on the latest appraisals. The aggregate could

however benefit from the effect from adjusting the useful life of some categories of fixed assets to the new estimated length of use. The P&L impact of the above adjustment recognized in the second half was 6.7 million.

As a result, total **operating costs** came in at 2,269.3 million, up by 0.7% from 2,253.8 million last year. Net of non-recurring impairments, the aggregate reported a reduction of approx. 2% compared with 2013. The cost/income ratio for the period, namely the ratio between total operating expenses net of non-recurring impairments, and total operating income net of the fair value option, comes in at 61,3%.

**Profit from operations** totaled 1,116.6 million, down from 1,330.7 million last year.

**Net write-downs on customer loan impairments** stood at 3,561.4 million (vs. 1,691.4 million last year), with a Q4 contribution of 2,496.1 million. As already mentioned, the significant amount of write-downs in Q4 2014 was mainly driven by the decisions made after analyzing the AQR findings once the ECB had provided detailed results. For a more detailed description of the accounting effects from the changes in valuation policies, models and parameters please refer to the section of this news release regarding the disclosure required by Consob. The **cost of credit**, measured as the ratio between net loan write-downs and net loans, came in at 406 b.p. per annum, as compared with 185 b.p. last year.

In 2014, 39.8 million worth of **net write-downs on impairment of other assets** were charged to income (19.3 million in Q4) compared with 161.5 million last year. Write-downs of 17.6 million regarded financial assets available for sale, more specifically fund units and equity investments, and 11.1 million were related to debt securities underlying securitizations included in the customer loan book. **Net provisions for risks and charges** totaled 39.5 million (of which 50.6 million in Q4, while a reversal of 11.1 million had been reported in the first nine months of the year) compared with 121.4 million in 2013. The provisions have been prudentially set aside against outstanding legal actions and tax litigations.

The annual revision of the macro-economic scenario, the steep decline in interest rates and GDP stagnation prompted the adoption of a multi-scenario approach for the annual impairment test on intangibles allocated to cash generating units (CGU). The resulting reduction in relevant financial flows, in particular in the more prudential scenario, coupled with the expected increase in the regulatory target capital ratio, caused the curtailment of the estimated recoverable amount of the "Private & Investment banking" CGU as compared with the previous year, which in turn caused the recognition of a partial impairment (200 million) of the allocated goodwill. For similar reasons, it was also necessary to carry out an additional impairment of 39 million of finite life intangibles. In FY 2013 no impairment had been recognized, on the contrary the 2013 P&L had benefitted from the recognition of a net write-back on equity investments totaling 95.2 million.

Over the period, **gains on disposal of equity and other investments** totaled 2.3 million (+4.8 million in 2013), mainly generated by the sale of own property (as last year).

The **loss before tax from continuing operations** came in at -2,760.8 million, as compared with the pre-tax loss of 543.5 million last year.

**Income tax from continuing operations** at 31 December 2014 came in at +802.2 million compared with 48.9 million last year.

Considering the attribution of the share of loss of 38.7 million to minority interest (in 2013 minority shareholders had been allocated a share of loss of 13.7 million), and the FVO impacts described above, the year ended with a **net loss for the period** of 1,945.9 million, compared with the net loss of 606.3 million reported last year.

### **Evolution of key balance sheet items**

At 31 December 2014, **direct funding** reached 86.5 billion, down by 3.9% from 90.0 billion at 31 December 2013 and up by 1.2% from 85.5 billion at 30 September 2014. The year-on-year reduction in assets volume is mainly attributable to the decline in bond-based funding (mainly retail), affected by the partial replacement with other cheaper funding sources and by the redemption plan aimed at reducing the overall cost of funding. The reduction in direct funding was partly offset by the increase in core funding sources, namely checking accounts and deposits (+9.1% yoy and +3.4% qoq), as well as repos and securities lending, and to a great extent by the stable liquidity flow generated by the stock of certificates, which at 31 December 2014 had a nominal value of 3.8 billion (1.6 billion at 31 December 2013).

The rise in the fourth quarter was driven by the growth of repos and securities lending transactions, as well as by the increase of checking accounts and deposits, which more than offset the decline in the bond component.

In keeping with the goals of our business plan, **indirect funding** went up 4.1% to 66.5 billion, compared with 63.8 billion at year-start (-0.8% compared with 67.0 billion at 30 September 2014).

The yoy increase was driven exclusively by assets under management (+13.2% year-to-date), while assets under administration reported a decline (-3.3% compared with year-end 2013). The growth in AuM was mainly driven by the marked development of the Mutual Funds and Sicav compartment (+20.8% compared with year-end 2013) and by insurance policies (+10.0%).

The decline in the fourth quarter was caused by AuA, whose equity component experienced a value reduction as a result of the fall in the prices of bank stocks, including Banco Popolare's.

At 31 December 2014, **gross loans** amounted to 87.7 billion, down by 2,5% compared with 89.9 billion at 30 September 2014 and by 4.3% compared with 91.6 billion at 31 December 2013. The reduction driven by the expiry of outstanding loans could not be offset by new loans, which in any case are reporting a good growth over 2013 across all three core segments (+1.1 billion, of +8% yoy, for retail; +1.7 billion, or +26%, for small business; +2.6 billion or +89%, for mid corporate). In more detail, the Group's gross loans "standalone"<sup>4</sup> at the end of the year totaled 83.4 billion, compared with 85.4 billion at the end of September (-2.4%) and 86.2 billion at the end of December 2013 (-3.3%). The component referring to Banca Italease loans<sup>5</sup> reports the regular amortization of leasing transactions, and over the quarter decreased by 0.3 billion, reaching 6.8 billion at 31 December 2014 compared with 7.0 billion at 30 September 2014 and 7.5 billion at 31 December 2013.

**Net non-performing loans** (bad, substandard, restructured and past due loans) at 31 December 2014 totaled 14.2 billion, up by 1.7% compared with 14.0 billion at 31 December 2013 and down by 4.6% compared with 14.9 billion at 30 September 2014. The moderate yoy growth and the decline reported in the fourth quarter reflect the significant increase in loan loss provisions charged to income in Q4, as already explained earlier on.

The net non-performing exposure of 2.6 billion represented by loans originated by Banca Italease has declined compared with 31 December 2013, and is mainly represented by real estate lease contracts.

In more detail, net of write-downs, the Group's bad loans totaled 6.0 billion, substandard loans 6.7 billion, restructured loans 1.3 billion and past dues 0.3 billion.

The changes introduced in the valuation policy, models and parameters led to a substantial strengthening of the coverage ratios across all loan classes. The coverage ratio for the non-performing loan aggregate including partially derecognized bad loans stood at 44.6% (in an uptrend both with respect to 37.6% on December 2013 and to 38.4% on September 2014). In more detail, at 31 December 2014, 58.8% of group bad loans had been written down or derecognized (54.7% and 54.3% at 31 December 2013 and at 30 September 2014, respectively), the coverage ratio of substandard loans stood at 26.1% (18.2% and 18.1% at 31 December 2013 and at 30 September 2014, respectively), that of restructured loans at 27.0% (17.7% and 22.5% at 31 December 2013 and at 30 September 2014, respectively) and that of past dues at 17.0% (6.9% e 7.0% at 31 December 2013 and at 30 September 2014, respectively).

Also the coverage ratio of performing loans reported a marked increase from 0.40% at 31 December 2013 to the current 0.64%. Net of repo exposures, stock lending exposures and exposures with related parties, that are practically risk-free, the coverage ratio hits 0.73% compared with 0.46% at 31 December 2013.

### **Group capital ratios**

In 2013, EU institutions approved the Capital Requirements Directive 2013/36/EU ("CRD IV"), and the Capital Requirements Regulation (EU) n. 575 ("CRR"), which transpose the banking supervisory standards defined by the Basel Committee (Basel 3 framework) in the EU. The new rules came into effect on 1 January 2014 in keeping with the instructions published at the end of 2013 by the Bank of Italy in circulars n. 285 ("New Supervisory Regulations for banks") and n. 286 ("Instructions for the preparation of prudential reports for banks and asset management companies").

As of 31.3.2014, "Own funds" have been calculated in compliance with the new rules.

By applying the phase-in arrangements effective at the end of December 2014 and taking into account the entire loss reported for the year, the Common Equity Tier 1 ratio (CET1 ratio) comes in at 11.9% (13.7% at 30 September 2014). The Core Tier 1 ratio is 12.3% (13.7% at 30 September 2014).

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<sup>4</sup> Exposures of Gruppo Banco Popolare excluding the sub-group Banca Italease and gross of their intercompany relations.

<sup>5</sup> Exposures of the sub-group Banca Italease gross of exposures with Banco Popolare.

The Total capital ratio comes in at 14.6% (16.5% at 30 September 2014). The ratio's marked decline was driven by the exclusion of the 18 November 2013 – 18 November 2020 subordinated bond, having a nominal value of 799.9 million, from the Tier 2 Capital. The eligibility of this equity instrument in view of the regulations that came into effect on 1 January 2014 has been recently called into question based on an interpretation given by the EBA when answering a question posed by an intermediary referring to a subordinated bond with similar characteristics to the financial instrument issued by Banco Popolare. In the absence of precise and formal guidelines as to the applicability of the interpretation to this specific case<sup>6</sup>, it was deemed prudentially adequate to exclude the bond from the Tier 2 capital computation, pending a thorough examination of the matter with the Regulator. For your information, had the bond been considered fully eligible, in line with the treatment adopted as of 1 January 2014, the total capital ratio at 31 December 2014 would have been 16.3%.

The fully loaded CET1 ratio (based on the rules adopted at the end of the transition period) is estimated at 11.3% (11.7% at 30 September 2014).

Considering also the effect expected from the approved merger of the subsidiary Banca Italease, the pro-forma fully loaded CET1 ratio is 11.5%.

After the impairments charged to income for the year, the shortfall was erased and at present the reported loan loss provisions exceed by 187 million the expected losses based on the internal models validated by the Regulator (of which 117 million on non-performing loans and 70 million on performing loans). This surplus is included in Tier 2 Capital.

The Leverage ratio based on the phase-in arrangements is 5.0%. On a fully-loaded basis the estimated ratio comes in at 4.7%.

### **Liquidity profile**

At 31 December 2014 the Group confirms its excellent liquidity profile. At 31 December 2014 the ECB exposure totaled 12.0 billion. On the same date the Group had assets eligible for refinancing with the ECB - still unencumbered to date - valued, net of haircuts, at 14.1 billion (17.3 billion at 30 September 2014), represented exclusively by an unencumbered portfolio of Italian Government bonds.

LCR (*Liquidity Coverage Ratio*) and NSFR (*Net Stable Funding Ratio*) are in line with Basel 3 at the end of period targets. In particular the LCR and NSFR exceeds.

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<sup>6</sup> Cf. art. 63 of EU Regulation n. 575/2013 of 26 June 2013.

**The results of the Comprehensive Assessment exercise: accounting effects (disclosure required by Consob pursuant to art. 114, paragraph 5, of Lgs. D. n.58/98)**

To ensure an adequate and consistent disclosure on the accounting effects of the Comprehensive Assessment, at 30 January 2015 Consob requested that all the participating banks include the following information in the Annual Report.

This disclosure complements and updates the information previously communicated in the interim report as at 30 September 2014 on the results for the third quarter and the first nine months 2014.

**Publication of the results of the Comprehensive Assessment exercise conducted by the European Central Bank**

On 26 October 2014, the ECB's Supervisory Board and Governing Council approved the Final Report and Results of the Comprehensive Assessment exercise. The exercise, that was carried out by the European Central Bank (ECB) together with the national supervisors, consisted of the following components:

- the AQR of the accounting data at the end of 2013, that called for a review of the quality of assets and an assessment of their valuation, as well as of the underlying collaterals and provisions;
- the Stress Test, conducted in close cooperation with the European Banking Authority (EBA), that examined the resilience of banking financial statements to stress. The outcome of the Stress Test reflects the impact of two predefined scenarios - "baseline" and "adverse" – that do not represent a forecast of the future financial performance or of the expected capital ratios of the participating banks.

The Group passed the test by a wide margin thanks to the capital strengthening actions it had undertaken already in the first half of 2014:

- the post-AQR CET1 ratio came in at 11.50% against a minimum required threshold of 8.0% (buffer of +350 b.p. corresponding to more than 1.8 billion);
- the post-Stress Test CET1 ratio under the baseline scenario was 10.26% against a minimum required threshold of 8.0% (buffer of +226 b.p.);
- the post-Stress Test CET1 ratio under the adverse scenario was 8.29% against a minimum required threshold of 5.5% (buffer of +279 b.p.).

In more detail, the AQR exercise conducted as part of the Comprehensive Assessment showed total "adjustments" to the amounts reported in the annual accounts as of 31 December 2013 of 1,603 million, gross of tax effect. The effect on Common Equity Tier 1 Capital at 31 December 2013 came in at 1,080 million. The table below details the identified adjustments:

<b>Details of the results of the Asset Quality Review: impact of the adjustments identified on the Common Equity Tier 1 Capital as at 31 December 2013</b>	
<i>Amounts in € million sourced from the ECB Report</i>	
Credit exposure - Adjustments to provisions on sampled files	451.24
Credit exposure - Provisions due to projections of findings	509.56
Credit exposure - Adjustment to provisions due to collective provisioning review	600.13
Credit Value Adjustment	10.62
Investment in Private Equity and participations - Adjustment related to fair value review	11.53
Investment Properties/ Real Estate /Other - Adjustment due to fair value review	19.89
	1,602.97
Offsetting tax impact	-522.89
	1,080.08

As shown in the table above, almost all the adjustments identified in the exercise concern the assessment of customer loans (1,561 million, corresponding to 97.4% of total adjustments).

The amount of the identified adjustments is basically rather similar to the shortfall<sup>7</sup> which at 31 December 2013 amounted to 1,336.4 million. Note that this information must be periodically disclosed to the market under the "Pillar III disclosure" requirements.

### **Nature of the capital effects resulting from the Comprehensive Assessment exercise**

As outlined by the ECB in its "Aggregate Report on the Comprehensive Assessment", the Comprehensive Assessment is a prudential exercise and not an exercise aiming at verifying the adoption of accounting standards when preparing financial statements. Therefore, the outcomes of the comprehensive assessment will not be reflected directly in the financial statements of the banks participating in the exercise. If this conclusion is crystal-clear with respect to the stress tests results, it proves less comprehensible when referring to the AQR component

Again, when referring to the AQR, the ECB has very clearly stated that, within a range of approaches allowed by accounting standards, numerous "ECB thresholds" were put in place, defined as prescriptive guidelines privileging the adoption of more stringent valuation parameters from a prudential perspective. To this respect, the ECB specified in the report that these "ECB thresholds" were not expected to be used

<sup>7</sup> Difference between the expected credit losses, whose risk for prudential purposes is measured based on internal models (AIRB) validated by the Supervisor, and the carrying amount of the reported loan loss provisions associated with the same loans.

for accounting purposes, leaving it to the responsibility of the single participating banks to assess whether those adjustments have to be reflected in their statutory accounts<sup>8</sup>.

As already remarked in the Quarterly Report published on 14 November 2014, the AQR exercise provided a series of new indications that prompted the bank to examine the overall findings. The main goal of this assessment was to carefully verify the compatibility of the prudential criteria applied by the Regulator with accounting standards, to decide whether it would be appropriate to work on current ordinary credit classification and valuation processes, and – within the range of estimate approaches allowed by accounting standards - to adopt partly different valuation parameters than those used up to now and rather more in line with those adopted by the ECB and by National Regulatory Authorities when conducting the AQR.

Following the publication of the document, the ECB sent specific communications to the banks participating in the exercise. As part of these communications, the Regulator invited Banco Popolare to conduct a critical examination of all the findings of the AQR, which include both the quantitative results reported in the above paragraph, and some qualitative remarks that were communicated to the Bank in a letter dated 4 December 2014.

In the afore mentioned communications, the Regulator invited the competent boards of Banco Popolare to critically examine the findings of the AQR and the reasons underlying the identified adjustments. Moreover, it expressed the wish that already when preparing the annual report as of 31 December 2014 we might consider the opportunity to introduce adequate changes to valuation processes (essentially customer loans) aimed at minimizing the misalignments between the valuations for financial reporting purposes and “ECB thresholds”.

#### **Outcome of the analysis of the Asset Quality Review findings conducted by Banco Popolare**

Based on the analysis of the quantitative and qualitative findings of the AQR communicated by the ECB, at the end of the third quarter we decided to work on our current ordinary credit classification and valuation processes so as to adopt – within the range of estimate approaches allowed by accounting standards - partly different valuation models and parameters than those used up to now already when preparing the annual report as of 31 December 2014, to be more in line with those adopted by the ECB and by National Regulatory Authorities when conducting the AQR. The aim was to minimize the misalignment between the valuations for financial reporting purposes and “ECB thresholds” as much as possible.

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<sup>8</sup> “These ECB thresholds provided additional prescription to practices in a number of areas in which accounting standards allow a range of approaches but did not contradict those standards. These ECB Thresholds are not expected to be used for accounting purposes following the comprehensive assessment, and where their application has led to AQR-adjustments it is the responsibility of participating banks to assess whether those adjustments have to be reflected in the statutory accounts. That said, the comprehensive assessment will form the basis for extensive follow-up work beyond addressing capital shortfalls. Nevertheless, a number of findings from the AQR do stem directly from adjustments in which the previous practice of participating banks was explicitly non-compliant with accounting practice. Participating banks are expected to assess these issues and reflect accounting breaches in their accounts. This process will be monitored by the Joint Supervisory Teams of the banks in question.”

## **Description of changes to credit valuation policies, procedures and parameters for the preparation of the annual report as of 31 December 2014**

The described changes introduced in valuation processes at policy, model and parameter level have been undoubtedly influenced by the analysis of the AQR results. On the other hand it should be noted that they have been decided and applied in compliance with the relevant accounting standard (IAS 39), according to which information, data, valuation models, estimates and assumptions underlying the valuation processes must undergo revisions to better reflect the current situation at the valuation date, taking into account the external and internal environment, as well as all the changes occurred in 2014.

Moreover, the described changes have been introduced as a result of management choices that pursued other aims in addition to the elimination of the existing misalignment between the valuations for financial reporting purposes and the “ECB thresholds”.

Note that the changes introduced in the valuation policies, models and parameters were of course added on top of the ordinary revision of expected losses based on the latest updates acquired when preparing the 2014 annual report (updates on the borrower’s conditions, initiation of insolvency procedures, updated appraisals concerning collaterals, progressing of ongoing loan restructuring processes, etc.). Hence, with respect to individual valuations it is not possible to distinguish the estimate change due to the policy and parameter changes from that due to the availability of updated information.

In more detail:

### **I. Performing loans**

#### **I.a. – Modification and update of parameters used in the collective loan loss calculation model.**

The “Probability of Default” (PD) and “management Loss Given Default” (management LGD) parameters have been modified compared with those used in the prior reporting periods, to better reflect current economic conditions, in keeping with the “AQR Qualitative Findings” attached to the letter sent by the ECB on 4 December 2014.

The “Loss Confirmation Period” parameter (LCP), whose aim is to turn an expected loss into an “incurred loss”, has been modified to reflect the updated information base used to calculate it.

The changes in the valuation parameters used in the collective performing loan valuation model gave rise to an estimated increase in loan loss provisions charged to income for the year of about 176 million (gross of tax effect).

#### **I.b. - Extension of the adoption of the collective valuation model to guarantees and commitments to performing borrowers.**

For the purpose of the 2014 annual report, guarantees and commitments to performing borrowers have been collectively assessed to reflect the probability of outlay of financial resources based on homogeneous portfolios, in keeping with the collective impairment method for credit facilities. This decision was made also to acknowledge a qualitative recommendation made by the ECB in the above mentioned letter.

The application of the new collective valuation model to performing guarantees and commitments caused an increase in provisions of 18.5 million, gross of tax effect, charged to income for the year.

### **II. Non-performing loans**

#### **II.a. - Changeover to a statistical/collective assessment for loans that are not individually significant.**

The loan valuation policy has been modified by defining the range of loans that based on their nature and their amount are not considered individually significant, and as such no longer undergo an individual assessment. The following portfolios have been considered not individually significant:

- all bad loans and substandard loans whose exposure is below or equal to € 100,000;
- all past due loans, irrespective of the outstanding exposure.

The above portfolios have been assessed based on collective statistical methodologies. In more detail, they have been assessed by assuming as expected loss a percentage corresponding to the “management Loss Given Default” (management LGD).

As a result of the change in the valuation approach, 222 million more write-downs were charged to income for the year as compared with the existing loan loss provisions, gross of tax effect. The estimate refers to the date of adoption of the new valuation model during the fourth quarter of the year.

#### **II.b. - Revision of the guidelines for the valuation of all non-performing loans, except for past due loans, exceeding € 100,000.**

Pending a formal change of the internal loan valuation policy, as part of the activities aimed at coordinating the assessment process for the purpose of preparing the draft financial statements, the Credit Department provided the loan managers in charge of conducting the analytical assessments with guidelines which - although essentially in line with relevant internal regulations – prompted valuers to take into due consideration the changed backdrop, in particular the macro-economic trend, the performance of the real estate and manufacturing markets and the indications arising from the analysis of AQR results. In more detail, to this respect:

1. loans included in the Credit File Review (CFR) have been thoroughly analyzed to understand the reasons underlying any valuation difference expressed by the Regulator. When confronted with acceptable reasons, within a valuation regulated by logics in line with the reference accounting standards and taking into account, when available, additional information stemming from subsequent events involving the same loans, loan loss provisions have been adjusted for reporting purposes;
2. with respect to mortgage loans, although there is an internal policy regulating the update of the values assigned to collaterals (periodic update of estimate appraisals and ongoing update of the appraisal value based on price changes supplied by external providers), it was deemed appropriate to direct valuers to take into due account the performance of the real estate market and the indications gleaned from the analysis of AQR results. These indications, in addition to the regular individual valuation review process, were further corroborated by a specific analysis of more material exposures (10 million or more in terms of total exposure), to consider the appropriateness of applying adjustments to bring the updated appraisal value more in line with the realizable value of the single assets.
3. with respect to the remaining exposures, without prejudice to the principle of independent and individual valuation by the Manager of the impaired loan based on available data and parameters, statistical information on the management Loss Given Default was made available to the loan managers in charge of the valuations, together with the “management LGD floor” obtained by analyzing the statistical distribution of historical losses. Moreover, second-level controls have been introduced for loans whose expected loss is lower than the loss measured based on the above statistical parameters.

As remarked earlier on, with respect to the valuation policy modifications described above, any attempt to quantify the impact of these changes would be arbitrary, as they have been incorporated in the ordinary estimate review process underlying the ongoing loan monitoring activities.

#### **II.c. - Valuation of a specific cluster of loans available for sale.**

The competent corporate boards have formally decided to reduce the amount of non-performing loans through the sale, en bloc or in more tranches, of unsecured loans up to 250,000 euro. Hence, these loans have been segregated in a specific cluster. Considering the specific destination of these loans, their valuation for reporting purposes was conducted by applying a collective impairment to the entire pool, based on a standard impairment percentage based on the Group’s past experience in the sale of portfolios with similar characteristics.

The change in valuation criteria due to the decision to sell and therefore to segregate the loan portfolio under examination gave rise to higher loan loss provisions charged to income for the year of 329 million gross of tax effect, as estimated based on the existing loan loss provisions at the date of the decision.

## Accounting effect of the quantitative results of the Asset Quality Review

In compliance with Consob's requirements as outlined in its communication of 30 January 2015, shown below is the required information on the accounting effects of AQR results.

### 1. **Credit File Review – Reconciliation between identified adjustments related to the loan sample that has been individually assessed by the team conducting the exercise, and the loan loss provisions charged to income in 2014 referring to the same exposures**

From a population representing all loans referable to the following three portfolios:

- “Real Estate Related” loans with a total exposure of 19.2 billion;
- “Large SME non Real Estate” loans with a total exposure of 19.0 billion;
- “Large Corporate non Real Estate” loans with a total exposure of 13.1 billion,

a sample of 907 was then submitted to an individual assessment through the Credit File Review. The examination of the analytical details by loan of the CFR findings that were submitted to the bank on 6 November 2014 reveals that almost all the adjustments that have been carried out, totaling 451.2 million, have been classified by the Regulator as due to the use of “ECB Thresholds”, and as such not directly expected to have an accounting effect.

The above exposures in 2014 have been submitted to an independent assessment by the bank, taking into due account also the additional information acquired in 2014 on the exposure performance. The comparison with the adjustment details provided by the Regulator reveals that net write-downs charged to income in 2014 related to the same exposures undergoing an adjustment as a result of the CRF totaled 700 million. 263 million worth of write-downs were charged to income in the first nine months of the year, while in the fourth quarter total write-downs charged to income amounted to 437 million.

The excess write-downs charged to income by the bank when compared with the adjustments identified with the CFR were mainly due to the fact that the valuations made in view of the preparation of the annual report as of 31 December 2014 factored in also the information and evolution of the borrowers' conditions after the completion of the CFR.

### 2. **Credit File Review - projections of findings – Outcomes and effect on the loan assessment carried out in view of the preparation of the annual report as of 31 December 2014**

The projection of findings of the CRF to the overall population of the three loan portfolios mentioned above produced a total adjustment of 509.6 million. This projections are purely statistical and therefore this adjustment cannot be reflected directly in the accounting and in the financial statements.

However, it should be pointed out that the above described changes introduced in the loan assessment process caused an annualized increase of 2,352 million in loan loss provisions for non-performing exposures referable to the three portfolios selected for the CFR. Net of the impact related to sampled loans undergoing an adjustment as outlined in the above item 1 (700 million), the increase in loan loss provisions produced by the overall estimate revisions reported in 2014 totaled 1,652 million.

Moreover, the average coverage ratio of exposures referable to the 3 portfolios as of 31 December 2014 is well above the average target coverage ratio identified by analyzing the AQR outcomes including the adjustments following the projection of findings.

In view of the above outline, although as we have already explained it is not possible to achieve a precise reconciliation with the adjustment reported by the ECB in the AQR's quantitative results, we may reasonably state that the entire adjustment has been absorbed by the loan loss provisions charged to income in 2014.

### 3. **Collective provision analysis (CPA) - Outcomes and effect on the loan assessment carried out in view of the preparation of the annual report as of 31 December 2014**

Adjustments determined by the AQR exercise totaled 600.1 million, and they were obtained by applying benchmark models (Challenger Model) to the collective assessment of performing loan portfolios and to the individual assessment of the non-performing loan portfolio related to retail SME borrowers, that were not included in the Credit File Review. The features of the Challenger Model used by the Regulators have been described in detail in the AQR Manual. It is a standardized quantitative model aimed at ensuring the homogeneity of the criteria applied by the Regulators across all the participating banks. The model is based upon assumptions primarily referred to financial year 2013. This “point-in-time” approach proves particularly prudent when referred specifically to Banco Popolare, considering that precisely in 2013, in addition to the economic recession, the credit valuation process was affected also by the inspections carried out by the National Regulator before the launch of the Comprehensive Assessment. Moreover, the internal models used by Banco Popolare to calculate collective loan loss provisions is based on an internal rating system that had been validated by the National Regulator as at 30 June 2012. For these reasons the adjustments under examination cannot be reflected directly in the accounting and in the financial statements.

It should be pointed out however that the above described modifications introduced in the credit assessment process caused loan loss provisions referable to non performing loans held in the retail SME portfolio to increase year-on-year by 598 million. For the performing loan portfolio the estimated effect in terms of higher loan loss provisions charged to income for the year as a result of the changes in the above described valuation parameter came in at 176 million.

The average coverage ratio of the exposures referring to the above portfolios as at 31 December 2014 exceeds the average target coverage ratio target determined by analyzing the AQR results including the adjustments following the CPA. Although as we have already explained it is not possible to achieve a precise reconciliation with the adjustment reported by the ECB in the AQR’s quantitative results, we may reasonably state that also this adjustment has been almost entirely absorbed by the loan loss provisions charged to income in 2014.

#### **4. Level 3 fair value exposures review - Outcomes and effect on the assessment of level three assets in view of the preparation of the annual report as of 31 December 2014**

The examination of the AQR findings gave rise to total adjustments of 31.4 million, of which 11.5 million ensuing from the revision of the fair value measurement of equity investments and private equity vehicles included in financial assets available for sale and 19.9 million from the revision of the fair value assessment of investment property.

Since the adjustments were immaterial, the ECB did not provide any detail and therefore it is not possible to verify whether they match the impairment charged to income for the year by Banco Popolare based on its own independent assessments. To this regard, an impairment of 17.5 million was charged to income for the year on equity investments and private equity vehicles classified under financial assets available for sale, and an additional impairment of 68.0 million was reported on investment property. As such, we believe that also this adjustment has been absorbed in the 2014 financial statements, further to the monitoring of the recoverable value of these investments, an activity that took into account all the information available at the reporting date.

#### **Operational outlook**

In 2015 Banco is expecting a moderate growth in the outstanding stock of loans. The pressure on lending margins will be counteracted by carefully managing loan pricing, reducing funding costs and by keeping operating costs under close control. The progressing implementation of the Wealth Management development plans set out in the Business Plan shall maintain fees and commissions at a level of excellence. The strong discontinuity actions that significantly strengthened the loan portfolio coverage levels, together with the shoring up of the capital base at the beginning of 2014, represent an undisputed solid foundation that will enable the Group to face 2015 with positive income expectations, a year whose still evolving macro-economic scenario will hopefully reverse its current trend.

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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 Annual Report as at 31 December 2014 will be made available to the public, under the law, at the head offices and at Borsa Italiana, and will also be published on the website [www.bancopopolare.it](http://www.bancopopolare.it) as well as on the website of the authorized central storage mechanism [www.1info.it](http://www.1info.it).

The handouts for today’s conference call for the presentation of the financial results of Gruppo Banco Popolare are available on the website [www.bancopopolare.it](http://www.bancopopolare.it) in the “Investor Relations” section.

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## Explanatory notes

For a better understanding of the information illustrated in the press 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 pursuant to IFRS 3 (so called Purchase Price Allocation – PPA) with respect to full financial year 2013 and 2014. For the sake of a like-for-like comparison, please note that PPA effects can significantly differ in the periods under comparison. For a full and transparent disclosure, shown below are the effects deriving from the recognition of profit adjustments reported by the income generation units acquired by Gruppo Banca Popolare Italiana and Gruppo Banca Italease due to the higher values recognized in the consolidated financial statements on the date of effectiveness of the business combinations as a result of applying the IFRS 3 accounting standard.

#### 1. A. - Business combination of Gruppo Banca Popolare Italiana

Net interest income: the P&L effect in financial year 2014 was +0.5 million (-0.2 million in Q4 2014) and +3.4 million in 2013, and is mainly attributable to the greater value recognized during PPA to loans acquired under the merger.

Other operating income: the P&L effect as at 31 December 2014 was -29.8 million (-7.5 million in Q4 2014) and -32.3 million in 2013, and is represented by the amortization of intangible assets having a finite useful life recognized during PPA.

As a result, the following P&L effects were reported in FY 2014:

- net interest and other banking income: -29.2 million (-28.9 million at 31 December 2013 and -7.5 million in Q4 2014);
- profit from operations: -32.9 million (-32.5 million at 31 December 2013 and -8.5 million in Q4 2014);
- income/loss before tax: -72.0 million (-32.9 million at 31 December 2013 and -47.5 million in Q4 2014), after having registered an impairment on intangible assets with a defined life for 39 million in the Q4 2014;
- income tax: +23.6 million (+10.7 million at 31 December 2013 and +13.9 million in Q4 2014).

The overall effect on net consolidated income came in at -48.4 million at 31 December 2014 (-22.1 million in FY 2013 and -33.6 million in Q4 2014).

#### 1. B. - Business combination of Gruppo Banca Italease

Net interest income: the P&L effect at 31 December 2014 was -3.3 million (-0.8 million in Q4 2014) and -4.2 million at 31 December 2013, and is attributable to the lower value recognized to financial liabilities issued by Banca Italease during the business combination upon allocating the purchase price. The negative effect is due to the consequent addition of interest expense recognized by Banca Italease against the above financial liabilities for the portion that was not repurchased after 1 July 2009.

As a result, the following P&L effects were reported in FY 2014:

- net interest and other banking income: - 3.3million (-4.2 million at 31 December 2013 and -0.8 million in Q4 2014);
- profit from operations: - 3.3 million (-4.2 million at 31 December 2013 and -0.8 million in Q4 2014);
- income/loss before tax: - 3.3 million (-4.2 million at 31 December 2013 and -0.8 million in Q4 2014);
- income tax: +1.1 million (+1.4 million at 31 December 2013 and +0.2 million in Q4 2014).

The overall effect on the net consolidated income came in at -2.2 million at 31 December 2014 (-2.8 million in FY 2013 and -0.6 million in Q4 2014).

By summing together the PPA effects associated with the ex-BPI group and those of the Banca Italease group, the total PPA negative effect on the net P&L result as at 31 December 2014 totaled -50.6 million (as compared with a negative effect of -24.9 million on the net income as at 31 December 2013 and -34.2 million on the net income of Q4 2014).

## 2. Changes in consolidation scope

The following changes in consolidation scope were reported in financial year 2014:

- final sale of the subsidiary Banco Popolare Croatia d.d.;
- Merger of Credito Bergamasco into Banco Popolare. The merger was authorized by the Bank of Italy with order dated 18 February 2014 and came into effect on 1 June, after the merger deed prepared on 27 May had been registered in the Enterprise Register;
- at 31 March the merger of Aletti Trust S.p.A. into Aletti Fiduciaria S.p.A. was finalized;
- at 30 June the merger of RI Investimenti Due S.r.l. into Sviluppo Comparto 8 S.r.l. was finalized ;
- completion of the liquidation procedure of Seefinanz S.A. and Royle West;
- at the end of December, as part of an action aimed at recovering the financial exposure to Gruppo Aedes, the Group assumed full ownership of the companies Manzoni 65 S.r.l., Sviluppo Comparto 2 S.r.l and Terme Ioniche S.r.l.;
- with respect to companies carried at equity, the associate Phoenix Spa, of which Banco Popolare held a 40% stake, and the Luxembourg foreign associate Estates Capital Venture S.A., of which the Parent company held a 43.368% stake, have been stricken off the Companies Register and are therefore no longer included in the consolidation scope, the 49%

stake in Finoa S.r.l. has been sold, while as part of a credit recovery action, we acquired a 25% interest in Motia Compagnia di Navigazione S.p.A..

The above changes in consolidation scope do not significantly affect the comparison of 2014 data with those of the prior periods.

Please note that on 1 January 2014 the new accounting standard IFRS 10 came into effect. The adoption of the new standard did not entail any effect for the Group, as the implementation of the new definition of "control" did not give rise to any consolidation scope changes.

### 3. Changes to the data related to FY 2013 under comparison

As of 31 December 2014, the Group decided to formally eliminate from the balance sheet intercompany derivatives between Banco Popolare and Banca Aletti entered into to hedge debt securities in issue under the fair value option, and managed by Banca Aletti "en-masse" with other similar transactions. The comparative data as at 31 December 2013 have been restated to guarantee a like-for-like comparison. This decision had no effect on the net income and the net equity of the two financial years under comparison. For more details on the reasons justifying the non-elimination, please refer to the consolidated annual report as at 31 December 2014, more specifically to the Explanatory Notes, Part A, "Sectiat 3 - Consolidation Scope and Methods".

### 4. Main non-recurring P&L items included in the income statements of the two periods under comparison

In compliance with the directives set forth in Consob's Communication n. DEM/6064293 dated 28 July 2006, the effects of the main non-recurring items is highlighted in the report on operations.

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 net income of FY 2014 has been negatively affected by the increase in book value of debt securities in issue measured at fair value compared with the previous period caused by the upgrade of Banco Popolare's credit rating (-38.8 million, gross of tax effect). For the same reason, the 2013 P&L had been negatively affected by 143.2 million, gross of tax effect.

"Personnel expenses" included the recognition of a non-recurring charge (138.2 million) resulting from the agreement met with Trade Unions at the end of July 2014 and at the end of November 2014 for the future exit of 578 employees through the solidarity fund. To this respect, note that last year a total of 135.5 million non-recurring solidarity fund charges had been charged to income, plus voluntary termination incentive costs of 6.2 million.

The current year's P&L has been penalized also by the impairment of real property, classified as tangible assets acquired for investment purposes, to bring their carrying amount in line with the estimated recoverable amount based on the most recent appraisals (68.0 million). Again with respect to the impairment of tangible and intangible assets, the P&L could benefit from about 6.7 million euro less in terms of D&A as a result of the adjustment of the useful life of some classes of intangible assets. In Q1 the P&L benefitted also from contingent assets from other administrative expenses of about 7 million.

As to the line-item "net adjustments to customer loans", it is quite evident that the significant amount charged to income in Q4 (2,496.1 million) includes a significant non-recurring component. Although this non-recurring component cannot be objectively calculated due to the intrinsic characteristics of the loan valuation process already outlined in this news release, it can be estimated to exceed 2 billion.

The line-item "impairment of goodwill, equity investments and other intangibles" include a goodwill impairment of 200 million referring to the cash generating unit "Private & Investment Banking", and the impairment of intangible assets with a finite useful life of 39 million.

At the line-item "tax on income from continuing operations", in Q2 the P&L was charged with 14.5 million referring to the adjustment of the tax effect on the capital gain earned by the Group last year from the swap of the stakes held in the share capital of the Bank of Italy. This charge was generated by the higher substitutive tax rate under Law Decree 66/2014 (26%), as compared with the 12% tax rate originally set by Law 147/2013 (so called "*legge di stabilità*"). With respect to the adjustment of tax assets and liabilities to the new tax rates under Law Decree n. 66/2014 (so called "spending review"), which under art. 2 provided for the reduction of the IRAP tax rate for banks and financial institutions from 4.65 to 4.20%, and that in Q2 had led to a non-recurring charge of 15.4 million to income under the line-item tax on income from continuing operations, in Q4 this was no longer applicable, as the IRAP tax rate has been reinstated in full after the approval of the stability law at the end of the year.

In addition to the described negative non-recurring components related to the change in credit rating and the recognition of charges for the future exit of employees, last year's P&L had been impacted also by the recognition of capital gains from the buy-back of debt securities and the early redemption of the associated derivatives (+37.6 million, gross of tax effect), by the sale of financial assets available for sale (the sale of the shareholding in Azimut Holding S.p.A. alone generated a capital gain of 31.3 million gross of tax effect), as well as by the swap of the stakes held in the share capital of the Bank of Italy (+55.2 million).

The line-item "net write-downs on impairment of other assets" included impairments mainly involving the stake held in a credit institution (-50 million) and investments in private equity funds and other similar investment vehicles classified as assets available for sale (-50.6 million), which had been deemed as non-recurring.

The line-item "provisions for risks and charges" included the per -81.5 million additional charge related to the decision to settle the tax litigation involving the subsidiary Banca Aletti out of court.

Worth mentioning is also the significant positive contribution (+95.2 million, gross of tax effect) of the line-item "Write-backs/write-downs of equity investments", as a result of a partial write-back of 105.8 million of the equity investment held in Agos - Ducato, and a write-down of 10.5 million of the equity investment held in Finoa S.r.l.. The line-item "income tax" included the negative impact from the temporary increase of the IRES tax rate on taxable income for the year totaling 20.9 million.

### 5. Changes to capital requirement regulations

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) n. 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".

On 17 December 2013, as part of an over-arching revision and simplification process concerning banking supervisory regulations, the Bank of Italy published the new circular no. 285 ("Supervisory Regulations for Banks"), which almost entirely replaces the previous circular no. 263 of 27 December 2006 ("New regulations for the prudential supervision of banks").

On the same date, the Bank of Italy regulated prudential supervisory reporting procedures on an individual and consolidated basis for banks and asset management companies through the new circular no. 286 ("Instructions for preparing prudential reports for banks and asset management firms"), which in case of banks replaces the previous circular no. 155 ("Instructions for preparing reports on regulatory capital and prudential ratios").

In particular, Circular no. 286 defines the reporting layouts for:

- 1) harmonized reports: regulatory capital, credit and counterparty risks (including securitizations, Credit Valuation Adjustment and Central Counterparties (CCP)), market risks, operational risk, large exposures, mortgage loss recognition, financial position, monitoring of liquidity and leverage;
- 2) non harmonized reports: related parties.

Due to material regulatory changes, capital ratios as of 31 March 2014 are not comparable with those reported at 31 December 2013.

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 2014 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: 5.5% + 2.5% CCB;
- minimum Total Capital ratio: 8% + 2.5% CCB.

#### 6. Other explanatory notes

The annual report reflects on a consolidated basis the financial accounts of Banco Popolare and its subsidiaries with respect to 31 December 2014 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 as at 31 December 2014 submitted to Banco Popolare, 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

## BANCO POPOLARE GROUP

### Reclassified consolidated balance sheet

<b>Reclassified assets</b> (in euro thousand)	<b>31/12/2014</b>	<b>31/12/2013 (*)</b>	<b>Changes</b>	
Cash and cash equivalents	619,529	639,632	(20,103)	(3.1%)
Financial assets and hedging derivatives	26,190,599	23,949,013	2,241,586	9.4%
Due from banks	5,058,816	3,753,227	1,305,589	34.8%
Customer loans	79,823,603	86,148,995	(6,325,392)	(7.3%)
Equity investments	1,061,412	1,033,764	27,648	2.7%
Property and equipment	2,139,962	2,052,250	87,712	4.3%
Intangible assets	2,049,912	2,299,243	(249,331)	(10.8%)
Non-current assets held for sale and discontinued operations	94,308	390,860	(296,552)	(75.9%)
Other assets	6,043,545	5,134,543	909,002	17.7%
<b>Total</b>	<b>123,081,686</b>	<b>125,401,527</b>	<b>(2,319,841)</b>	<b>(1.8%)</b>

<b>Reclassified liabilities</b> (in euro thousand)	<b>31/12/2014</b>	<b>31/12/2013 (*)</b>	<b>Changes</b>	
Due to banks	17,383,317	17,403,066	(19,749)	(0.1%)
Due to customers, debt securities issued and financial liabilities designated at fair value	86,513,468	90,017,669	(3,504,201)	(3.9%)
Financial liabilities and hedging derivatives	6,650,235	4,516,607	2,133,628	47.2%
Liability provisions	1,281,459	1,287,617	(6,158)	(0.5%)
Liabilities associated with assets held for sale	-	275,511	(275,511)	
Other liabilities	3,176,858	3,378,404	(201,546)	(6.0%)
Minority interests	12,130	349,039	(336,909)	(96.5%)
Shareholders' equity	8,064,219	8,173,614	(109,395)	(1.3%)
- Capital and reserves	10,010,110	8,779,909	1,230,201	14.0%
- Net income (loss) for the period	(1,945,891)	(606,295)	1,339,596	220.9%
<b>Total</b>	<b>123,081,686</b>	<b>125,401,527</b>	<b>(2,319,841)</b>	<b>(1.8%)</b>

(\*) Data of the previous year have been restated in order to ensure a homogeneous comparison.

## BANCO POPOLARE GROUP

### Reclassified consolidated income statement

Reclassified income statement (in euro thousand)	31/12/2014	31/12/2013	Chg.
Net interest income	1,555,575	1,646,982	(5.5%)
Income (loss) from investments in associates carried at equity	90,066	(27,403)	
<b>Net interest, dividend and similar income</b>	<b>1,645,641</b>	<b>1,619,579</b>	<b>1.6%</b>
Net fee and commission income	1,385,447	1,387,062	(0.1%)
Other net operating income	138,888	189,184	(26.6%)
Net financial result (excluding FVO)	215,910	388,744	(44.5%)
<b>Other operating income</b>	<b>1,740,245</b>	<b>1,964,990</b>	<b>(11.4%)</b>
<b>Total income</b>	<b>3,385,886</b>	<b>3,584,569</b>	<b>(5.5%)</b>
Personnel expenses	(1,432,331)	(1,446,735)	(1.0%)
Other administrative expenses	(645,094)	(667,107)	(3.3%)
Amortization and depreciation	(191,903)	(139,998)	37.1%
<b>Operating costs</b>	<b>(2,269,328)</b>	<b>(2,253,840)</b>	<b>0.7%</b>
<b>Profit (loss) from operations</b>	<b>1,116,558</b>	<b>1,330,729</b>	<b>(16.1%)</b>
Net adjustments on loans to customers	(3,561,431)	(1,691,418)	110.6%
Net adjustments on receivables due from banks and other assets	(39,828)	(161,464)	(75.3%)
Net provisions for risks and charges	(39,455)	(121,431)	(67.5%)
Impairment of goodwill and equity investments	(239,000)	95,246	
Profit (loss) on the disposal of equity and other investments	2,345	4,789	(51.0%)
<b>Income (loss) before tax from continuing operations</b>	<b>(2,760,811)</b>	<b>(543,549)</b>	<b>407.9%</b>
Tax on income from continuing operations (excluding FVO)	802,242	48,913	1540.1%
Income (loss) after tax from discontinued operations	(48)	(29,595)	(99.8%)
Income (loss) attributable to minority interests	38,714	13,749	181.6%
<b>Net income (loss) for the period excluding FVO</b>	<b>(1,919,903)</b>	<b>(510,482)</b>	<b>276.1%</b>
Fair Value Option result (FVO)	(38,828)	(143,154)	(72.9%)
Tax on FVO result	12,840	47,341	(72.9%)
<b>FVO Impact</b>	<b>(25,988)</b>	<b>(95,813)</b>	<b>(72.9%)</b>
<b>Net income (loss) for the period</b>	<b>(1,945,891)</b>	<b>(606,295)</b>	<b>220.9%</b>

## BANCO POPOLARE GROUP

### Reclassified consolidated income statement: quarterly evolution

Reclassified income statement	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3 (*)	Q2 (*)	Q1 (*)
Net interest income	388,294	396,556	398,180	372,545	390,199	423,103	428,800	404,880
Income (loss) from investments in associates carried at equity	24,964	24,900	20,844	19,358	6,909	(5,825)	(33,113)	4,626
<b>Net interest, dividend and similar income</b>	<b>413,258</b>	<b>421,456</b>	<b>419,024</b>	<b>391,903</b>	<b>397,108</b>	<b>417,278</b>	<b>395,687</b>	<b>409,506</b>
Net fee and commission income	310,493	356,008	347,270	371,676	319,348	324,481	377,996	365,237
Other net operating income	26,300	38,504	33,452	40,632	52,202	36,381	47,976	52,625
Net financial result (excluding FVO)	(1,863)	23,794	105,604	88,375	120,819	96,691	94,545	76,689
<b>Other operating income</b>	<b>334,930</b>	<b>418,306</b>	<b>486,326</b>	<b>500,683</b>	<b>492,369</b>	<b>457,553</b>	<b>520,517</b>	<b>494,551</b>
<b>Total income</b>	<b>748,188</b>	<b>839,762</b>	<b>905,350</b>	<b>892,586</b>	<b>889,477</b>	<b>874,831</b>	<b>916,204</b>	<b>904,057</b>
Personnel expenses	(376,095)	(381,999)	(330,004)	(344,233)	(416,155)	(345,066)	(337,811)	(347,703)
Other administrative expenses	(135,530)	(170,855)	(176,974)	(161,735)	(137,015)	(173,049)	(177,875)	(179,168)
Amortization and depreciation	(86,843)	(31,043)	(25,252)	(48,765)	(44,073)	(33,710)	(30,742)	(31,473)
<b>Operating costs</b>	<b>(598,468)</b>	<b>(583,897)</b>	<b>(532,230)</b>	<b>(554,733)</b>	<b>(597,243)</b>	<b>(551,825)</b>	<b>(546,428)</b>	<b>(558,344)</b>
<b>Profit (loss) from operations</b>	<b>149,720</b>	<b>255,865</b>	<b>373,120</b>	<b>337,853</b>	<b>292,234</b>	<b>323,006</b>	<b>369,776</b>	<b>345,713</b>
Net adjustments on loans to customers	(2,496,072)	(445,323)	(292,049)	(327,987)	(1,006,837)	(246,302)	(209,430)	(228,849)
Net adjustments on receivables due from banks and other asse	(19,328)	(8,413)	(8,606)	(3,481)	(94,978)	(6,665)	(54,074)	(5,747)
Net provisions for risks and charges	(50,628)	2,729	9,937	(1,493)	(123,130)	5,599	(4,840)	940
Impairment of goodwill and equity investments	(239,000)	-	-	-	(250)	-	95,496	-
Profit (loss) on the disposal of equity and other investments	207	965	206	967	5,498	(491)	(357)	139
<b>Income (loss) before tax from continuing operations</b>	<b>(2,655,101)</b>	<b>(194,177)</b>	<b>82,608</b>	<b>5,859</b>	<b>(927,463)</b>	<b>75,147</b>	<b>196,571</b>	<b>112,196</b>
Tax on income from continuing operations (excluding FVO)	804,507	59,355	(56,308)	(5,312)	231,118	(42,663)	(75,516)	(64,026)
Income (loss) after tax from discontinued operations	-	121	(109)	(60)	(26,122)	(1,535)	(2,528)	590
Income (loss) attributable to minority interests	30,028	4,632	3,382	672	24,879	441	(3,536)	(8,035)
<b>Net income (loss) for the period excluding FVO</b>	<b>(1,820,566)</b>	<b>(130,069)</b>	<b>29,573</b>	<b>1,159</b>	<b>(697,588)</b>	<b>31,390</b>	<b>114,991</b>	<b>40,725</b>
Fair Value Option result (FVO)	(5,108)	3,427	(7,096)	(30,051)	(110,727)	(33,071)	(75,801)	76,445
Tax on FVO result	1,529	(1,118)	2,491	9,938	36,617	10,937	25,067	(25,280)
<b>FVO net impact</b>	<b>(3,579)</b>	<b>2,309</b>	<b>(4,605)</b>	<b>(20,113)</b>	<b>(74,110)</b>	<b>(22,134)</b>	<b>(50,734)</b>	<b>51,165</b>
<b>Net income (loss) for the period</b>	<b>(1,824,145)</b>	<b>(127,760)</b>	<b>24,968</b>	<b>(18,954)</b>	<b>(771,698)</b>	<b>9,256</b>	<b>64,257</b>	<b>91,890</b>

(\*) Data of the previous year have been restated in order to ensure a homogeneous comparison.