

*Interim report
on operations*

as at 30 September 2014

 **BANCO POPOLARE**

**INTERIM REPORT ON OPERATIONS
AS AT 30 SEPTEMBER 2014**

Banco Popolare Società Cooperativa

Registered office and General headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 30 September 2014: euro 6,092,996,076.83
Tax Code, VAT No. and Verona Companies' Register Enrolment No. 03700430238
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco Popolare Banking Group
Enrolled in the register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 30 SEPTEMBER 2014

Chairman
Deputy Chairman
Deputy Chairman
Managing Director
Directors

Board of Directors

Carlo Fratta Pasini (*)
Guido Castellotti (*)
Maurizio Comoli (*)
Pier Francesco Saviotti (*)
Patrizia Codecasa
Luigi Corsi
Domenico De Angelis (*)
Maurizio Faroni (*)
Gianni Filippa
Cristina Galeotti
Andrea Guidi
Valter Lazzari
Maurizio Marino
Daniela Montemerlo
Giulio Pedrollo
Enrico Perotti
Claudio Rangoni Machiavelli
Fabio Ravanelli
Cecilia Rossignoli
Sandro Veronesi
Franco Zanetta
Tommaso Zanini
Cesare Zonca (*)
Cristina Zucchetti

(*) members of the Executive Committee

Chairman
Standing Auditors

Alternate Auditors

General Manager
Joint General Manager

Standing Members

Alternate Members

Board of Statutory Auditors

Pietro Manzonetto (1)
Maurizio Calderini
Gabriele Camillo Erba
Claudia Rossi
Alfonso Sonato
Marco Bronzato
Paola Pesci

General Management

Maurizio Faroni
Domenico De Angelis

Ethics and Disciplinary Committee

Aldo Bulgarelli
Luciano Codini
Giuseppe Germani
Matteo Bonetti
Donato Vestita

Manager responsible for preparing the Company's financial reports

Gianpietro Val

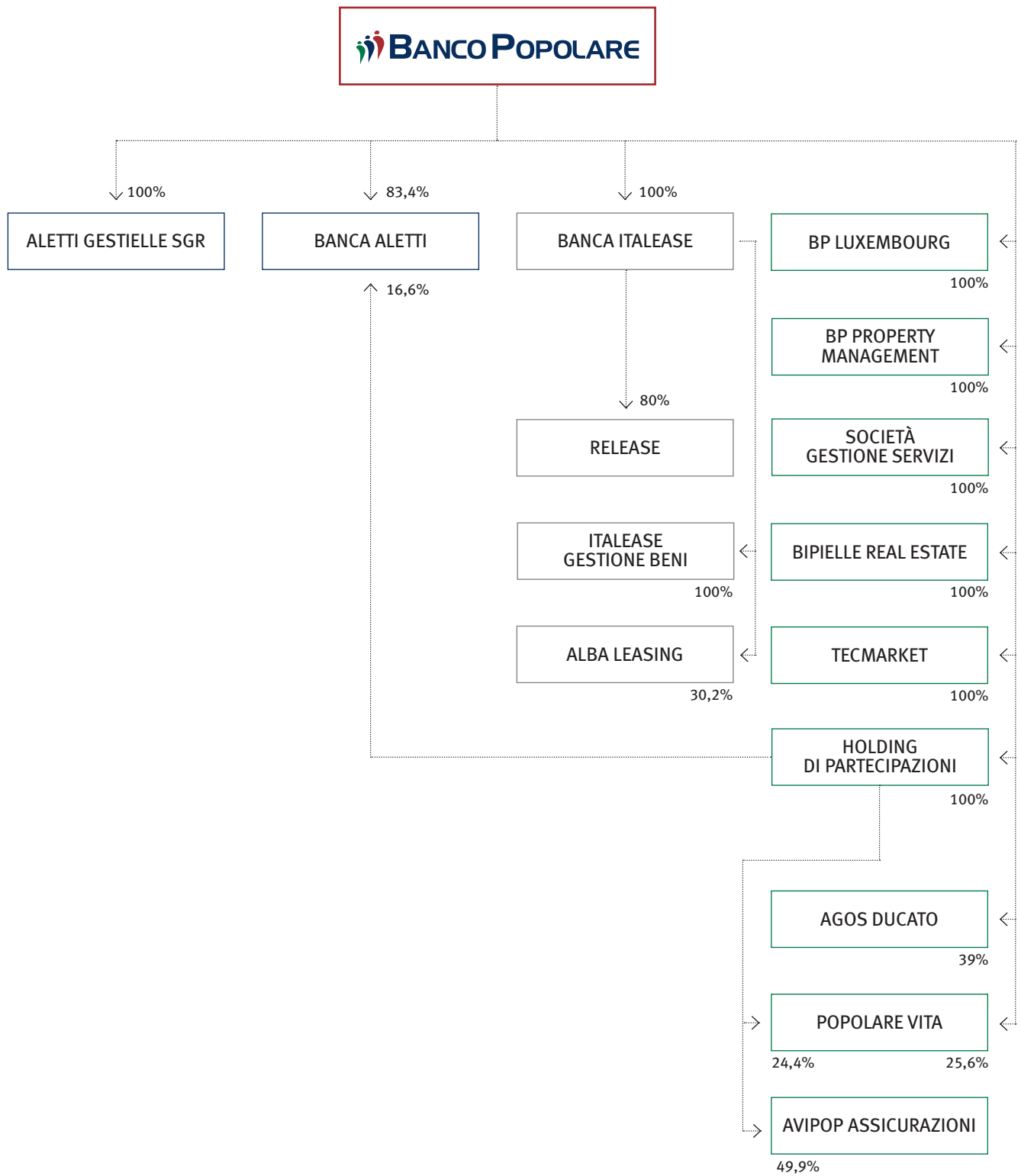
Independent Auditors

Reconta Ernst & Young S.p.A.

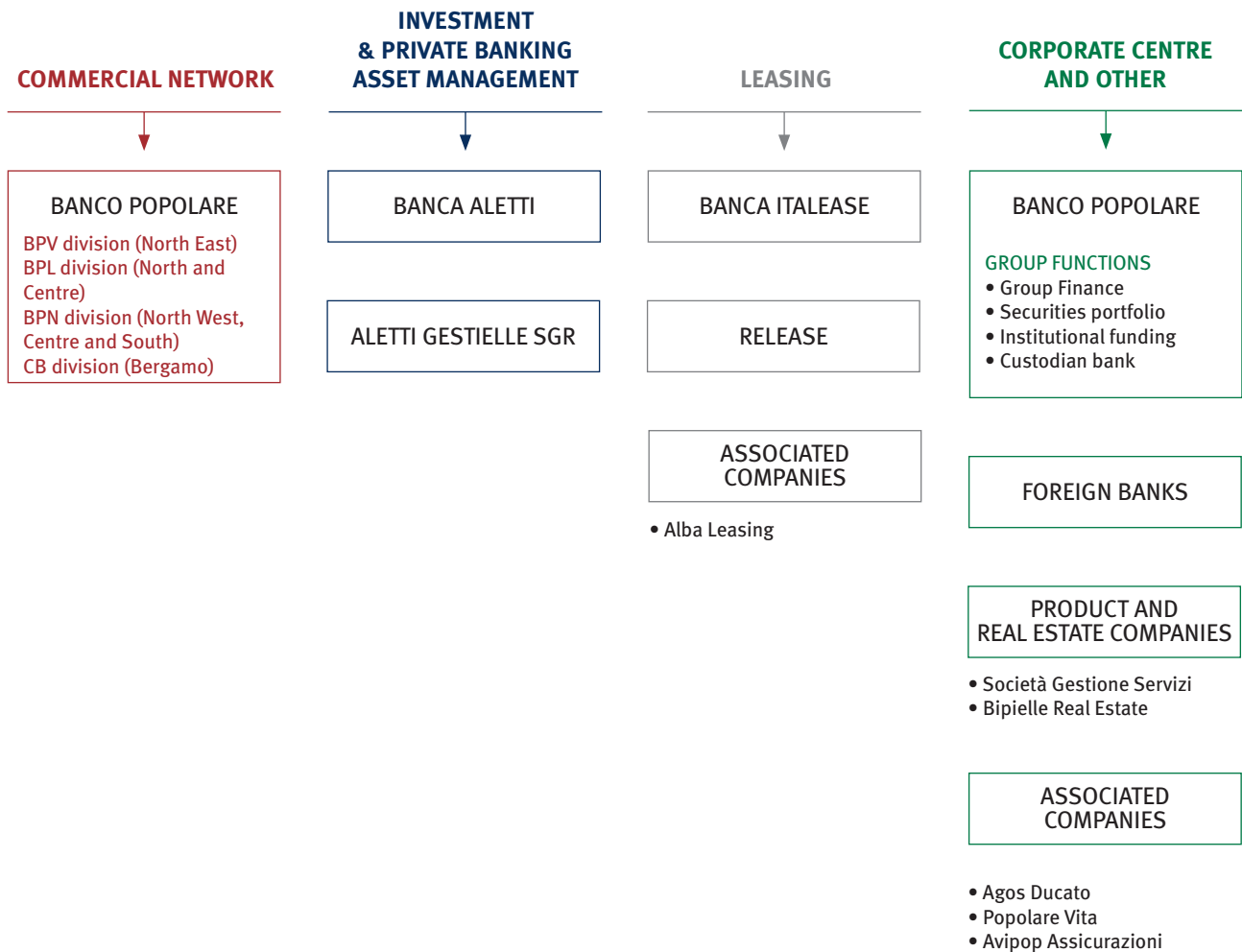
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GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



The **BPV division** works with the trademarks: Banca Popolare di Verona, Banco S. Geminiano e S. Prospero, Banco S. Marco, Banca Popolare del Trentino and Cassa di Risparmio di Imola.

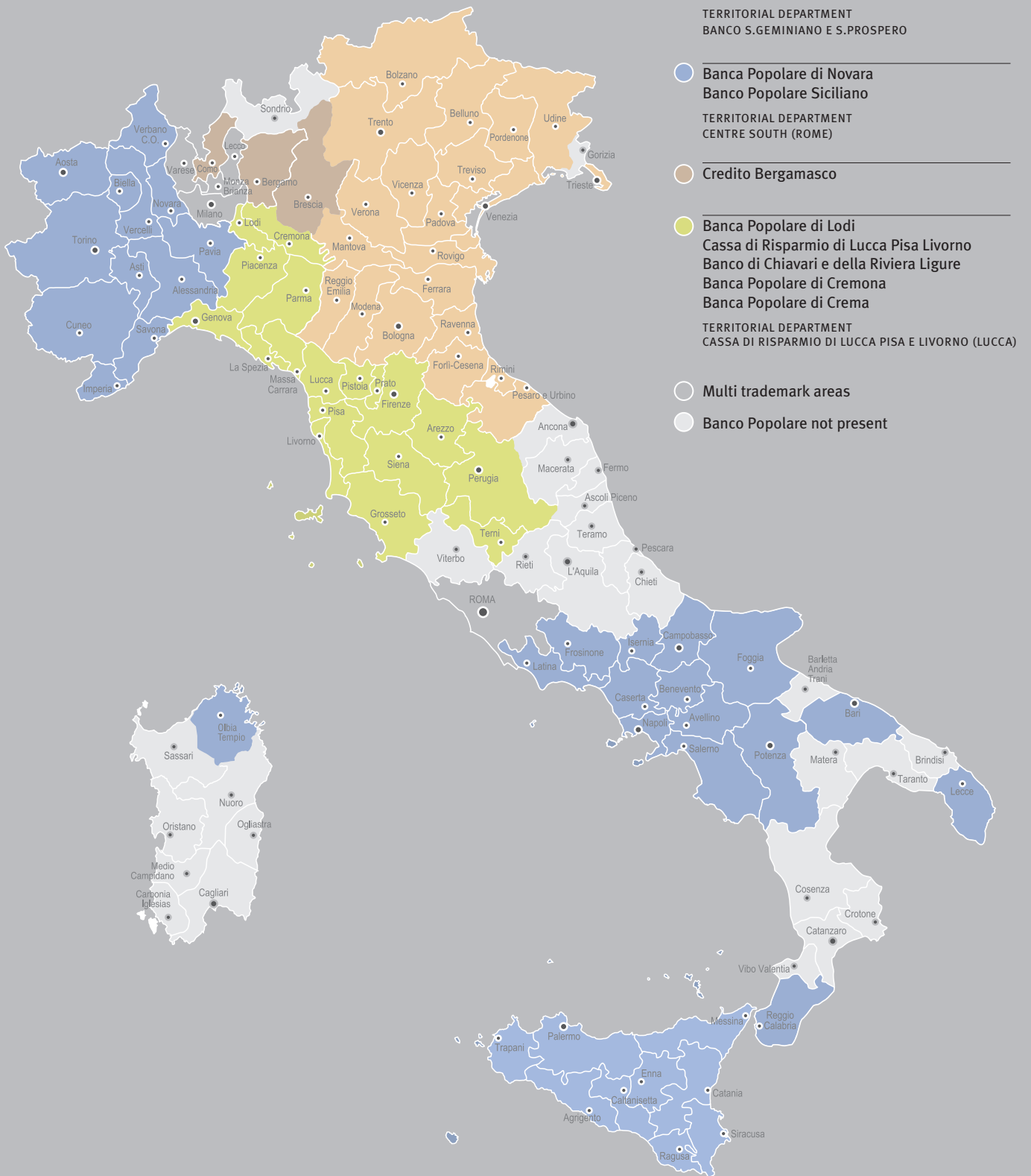
The **BPL division** works with the trademarks : Banca Popolare di Lodi, Cassa di Risparmio di Lucca Pisa e Livorno, Banco di Chiavari e della Riviera Ligure, Banca Popolare di Cremona and Banca Popolare di Crema.

The **BPN division** works with the trademarks: Banca Popolare di Novara and Banco Popolare Siciliano.

The **CB division** works with the trademark: Credito Bergamasco.

GROUP TERRITORIAL NETWORK

Figures as at 30 09 2014



NUMBER OF BANCO POPOLARE GROUP BRANCHES
EXCLUDING 32 TREASURY BRANCHES

Banco Popolare	1,882
Banca Aletti	34
Total	1,916

Banco Popolare Group Branches in Italy (*)	Number
Banco Popolare	1,882
Banca Aletti	34
Total	1,916
<i>(*) Excluding 32 treasury branches</i>	

Presence abroad

Overall, the Group has 3 foreign branches, managed by its subsidiary companies BP Luxembourg, Banca Aletti Suisse and Banco Popolare in London.

The Group's presence on markets of interest for Italian exports takes the form of Representative Offices in China (Hong Kong and Shanghai), India (Mumbai) and Russia (Moscow).

GROUP FINANCIAL HIGHLIGHTS

The highlights and main ratios of the Group, calculated on the basis of the reclassified financial statements, are presented below.

In previous years, the Banco Popolare Group exercised the option of designating financial liabilities issued by the bank at fair value (“fair value option”) as an alternative to hedge accounting, also for issues classified as institutional. Measuring the financial liabilities placed on the institutional market at fair value also entails measuring the impact of the change in its own creditworthiness following the date of issue of the liability. Due to said previous option, the Group’s profit (loss) is influenced to a significant extent by its creditworthiness measured on the basis of market quotations of the specific credit default swap. Given the fact that the economic impact of the fair value option has no value in terms of analysing the Group’s effective profitability, in the tables below, it was considered appropriate to show the impact of the afore-mentioned fair value option in a separate item, also showing the profit (loss) of previous periods compared net of said impact ⁽¹⁾.

<i>(in millions of euro)</i>	30/09/2014	30/09/2013 (*)	Change
Income statement figures			
Financial margin	1,232.4	1,222.5	0.8%
Net fee and commission income	1,075.0	1,067.7	0.7%
Operating income	2,637.7	2,695.1	(2.1%)
Operating expenses	(1,670.9)	(1,656.6)	0.9%
Income (loss) from operations	966.8	1,038.5	(6.9%)
Income (loss) before tax from continuing operations	(105.7)	383.9	
Net income (loss) without FVO	(99.3)	187.1	
FVO Impact	(22.4)	(21.7)	3.3%
Net income (loss)	(121.7)	165.4	

() The figures have been restated in compliance with IFRS 5. The attachments contain a statement of reconciliation between the reclassified income statement published in the interim report on operations as at 30 September 2013 and that restated in this statement.*

<i>(in millions of euro)</i>	30/09/2014	31/12/2013	Change
Balance sheet figures			
Total assets	125,921.3	126,042.7	(0.1%)
Loans to customers (gross)	89,929.4	91,582.8	(1.8%)
Financial assets and hedging derivatives	25,982.9	24,590.1	5.7%
Shareholders' equity	9,873.3	8,173.6	20.8%
Customers' financial assets			
Direct funding	85,508.7	90,017.7	(5.0%)
Indirect funding	67,005.5	63,843.2	5.0%
- Asset management	32,114.4	28,761.7	11.7%
- Mutual funds and SICAVs	15,258.9	12,868.2	18.6%
- Securities and fund management	6,599.1	6,530.6	1.0%
- Insurance policies	10,256.3	9,362.8	9.5%
- Administered assets	34,891.1	35,081.5	(0.5%)
Information on the organisation			
Average number of employees and other staff (*)	17,640	18,038	
Number of bank branches (**)	1,951	1,990	

() Weighted average calculated on a monthly basis. This does not include the Directors and Statutory Auditors of Group companies.*

*(**) Including treasury branches.*

⁽¹⁾ It should also be noted that on 24 July 2014, the International Accounting Standard Board (“IASB”) issued the final version of the new accounting standard “IFRS 9 – Financial Instruments”. One of the changes introduced by the new standard is the elimination of income statement volatility resulting from changes in creditworthiness. The latter changes will now be recognised directly as changes in shareholders’ equity, without passing through the income statement. Companies may apply this new approach for recognition of the same even before implementing the other changes introduced by the new accounting standard. The standard must be applied from 1 January 2018, however early application will be permitted as soon as the same has become part of Community regulations. The proposed presentation of income statement figures therefore anticipates the expected imminent change in the accounting recognition of this particular phenomenon, immediately providing an income statement result that is free of the impact of changes in creditworthiness.

Financial and economic ratios and other Group figures

	30/09/2014 (*)	31/12/2013 (*)
Profitability ratios (%)		
Annualized Return on asset (ROA)	(0.13%)	(0.48%)
Financial margin / Operating income	46.72%	45.18%
Net fee and commission income / Operating income	40.75%	38.70%
Operating expenses / Operating income	63.35%	62.88%
Operational productivity figures (000s of euro)		
Loans to customers (gross) per employee (**)	5,098.0	5,077.2
Annualized operating income per employee (**)	199.4	198.7
Annualized operating expenses per employee (**)	126.3	124.9
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	7.40%	6.42%
Net substandard loans / Loans to customers (net)	8.32%	7.69%
Net bad loans / Shareholders' equity	63.00%	67.64%
Capitalisation ratios (***)		
Common equity tier 1 ratio (CET1 capital ratio)	13.70%	n/a
Core tier 1 ratio	n/a	9.70%
Tier 1 capital ratio	13.70%	10.60%
Total capital ratio	16.53%	13.34%
Tier 1 capital ratio / Tangible assets	5.53%	4.22%
Other ratios		
Financial assets / Total assets	20.63%	19.51%
Derivative assets / Total assets	3.52%	3.53%
- trading derivatives / total assets	2.97%	3.63%
- hedging derivatives / total assets	0.55%	0.39%
Net trading derivatives / Total assets	2.13%	0.63%
Net loans / Direct funding	98.29%	95.70%
Banco Popolare stock		
Number of outstanding shares	362,179,606	1,763,730,870
Official closing prices of the stock		
- Maximum	15.78 (****)	1.56
- Minimum	8.97 (****)	0.89
- Average	12.45 (****)	1.20

(*) The ratios were calculated excluding the effect of the FVO.

(**) Arithmetic average calculated on a monthly basis which does not include the Directors and Statutory Auditors of Group companies.

(***) From 1 January 2014, new prudential regulations ("Basel 3") came into force, therefore the capital ratios as at 30 September 2014 are not comparable to those that refer to 31 December 2013.

(****) Stock underwent a grouping operation, at a ratio of 1 new share for every 10 existing ordinary shares. Furthermore, two share capital increases were completed in the first half of the year. The prices of Banco Popolare stock prior to 31 March 2014 (start date of share capital increase and detachment of the relative rights) have been amended by applying the adjustment factor provided by Borsaitaliana (0.757143).

NOTES TO THE INTERIM REPORT ON OPERATIONS

Structure, principles and content of the Interim report on operations

The Interim report on operations as at 30 September 2014, prepared pursuant to Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments, aims to promptly provide indications regarding the trend of the Group's general performance based on rapidly and easily determined economic-financial data.

The balance sheet and income statement figures illustrated in this document are prepared by applying the measurement bases already used for the purposes of preparing the consolidated financial statements as at 31 December 2013. More specifically, the Report reflects the balance sheet and income statement situations of Banco Popolare and its subsidiary companies on a consolidated basis. The accounting statements used for drafting the Interim report on operations are those drawn up by the subsidiary companies with reference to 30 September 2014 (or, in the absence thereof, the most recent accounts approved). The accounting statements used for consolidation purposes, have been adjusted, where necessary, to adapt them to the IAS/IFRS; in some cases, the afore-mentioned accounting statements have also been drawn up using estimation procedures different to those normally adopted for the preparation of the annual accounts. More specifically, with reference to certain commission items as well as administrative expenses, given the impossibility of determining the entity of the revenues and expenses associated respectively with services provided and those received but not yet invoiced by means of the usual methods, Group companies have drawn up their accounting statements using estimated data.

For an illustration of recognition, classification, measurement, derecognition and recognition of income components relating to financial statement items, please refer to the content of the financial statements as at 31 December 2013 ("Part A - Accounting policies"), as supplemented by new standards or by amendments to existing standards illustrated in the paragraph below entitled "New accounting standards or amendments to accounting standards validated by the European Commission", the application of which takes effect on 1 January 2014.

The "Report" comprises the following financial statements:

- the balance sheet as at 30 September 2014, compared with the situation as at 31 December 2013, relating to the last annual financial statements published;
- the income statement as at 30 September 2014, compared with the results from the corresponding period of the previous year.

These statements are presented in reclassified format, based on the schedules drawn up in accordance with the provisions contained in the Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation" and are accompanied by several tables providing details of the main reclassified items of the balance sheet and income statement and relative comments. The purpose of illustrating the statements in reclassified format is to provide an immediate picture of the Group's economic-capital performance, based on operational criteria.

This Interim report on operations is not subject to auditing by the independent auditors.

The amounts in this document are stated, unless otherwise specified, in thousands of euro.

Notes for the correct comparison of financial statement schedules

For comparison purposes, the income statement as at 30 September 2013 has been amended to retroactively reflect, as per IFRS 5, the relative impact of operations that have been discontinued or are in the process of being discontinued, regarding the subsidiary company Banco Popolare Croatia, classified as discontinued as at 31 December 2013 and sold in April 2014. In particular, the contribution of the above discontinued company, a loss of euro 2.7 million, which in the Interim Report on Operations as at 30 September 2013, had been recorded under different income statement items due to the "line-by-line" consolidation method, was restated under the summary income statement item "Income (Loss) after tax from discontinued operations".

To have an immediate understanding of the quantitative impact of the above-mentioned restatements, the attachments include the reclassified income statement schedule relating to the previous period (30 September 2013) reconciliated with the figures originally published.

New accounting standards or amendments to accounting standards validated by the European Commission

From 2014, several accounting standards or amendments to existing accounting standards issued by the IASB and validated by the European Commission are now mandatory; the Group has opted for the early adoption of the same in previous years. The following paragraphs provide an illustration of said standards/amendments, together with a short description of the impact on the Group.

Regulation no. 1254 of 11 December 2012 – IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28 (and subsequent amendments validated with Regulation no. 313 of 4 April 2013 “transition guidance” and with Regulation no. 1174 of 20 November 2013 for subsidiaries of investment entities)

With the above Regulations, the European Commission validated several new standards and approved amendments to existing standards, also approved by the IASB in 2011 and 2012.

The objective of IFRS 10 “Consolidated Financial Statements” is to provide a single model for consolidated financial statements, which envisages control as a basis for all types of entity, as a replacement of the standards envisaged by IAS 27 “Consolidated and Separate Financial Statements” and by SIC 12 “Consolidation - Special Purpose Entities”. An investor has control when it simultaneously has: power over the entity, is exposed to or benefits from variable returns resulting from the relationship with the entity and has the ability to affect those returns through power over the entity. In addition, in IFRS 10, methods for the preparation of consolidated financial statements are illustrated, which substantially represents a transposition of the criteria contained in previous standard IAS 27.

IFRS 11 “Joint Arrangements” establishes the accounting principles for entities that jointly control an arrangement and replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. The standard requires the entity to establish the type of arrangement it is involved in, assessing its rights and obligations. The interests held in a joint venture, in which the parties sharing joint control have rights over the net assets of the arrangement, are recognised as an equity investment, to be valued under equity, in compliance with the new version of IAS 28. Based on the new standard, the proportional consolidation of interests in joint ventures is no longer permitted.

IFRS 12 “Disclosure of interests in other entities” is a new standard that covers disclosure requirements for all forms of interest in subsidiaries, associates, structure non-consolidated entities and joint control arrangements. The purpose of the standard is to enable the presence and nature of the risks of the investment to be assessed, as well as the impact of the investment on the financial position of the company.

Following the introduction of new standards IFRS 10, IFRS 11 and IFRS 12, standards IAS 27 and IAS 28 were amended. More specifically, standard IAS 27, which was renamed “Separate Financial Statements”, contains the principles for accounting and the disclosures to provide in separate financial statements related to investments in subsidiaries, joint ventures and associates. Standard IAS 28, renamed “Investments in Associates and Joint Ventures” outlines the accounting of investments in associates and the requirements for the application of the equity method to the accounting of investments in associates and joint ventures. The standard also provides a definition of the term “significant influence”, which forms the basis for the recognition of interests in associated companies, which is substantially in line with that envisaged in the previous version of IAS 28.

The cited amendments have not had any impact on the Group’s balance sheet insofar as on the date of initial application (1 January 2014), no change was made to the scope of consolidation of subsidiaries resulting from the new definition of “control” introduced by IFRS 10 and illustrated in the paragraph below “Scope of consolidation and methods”. Therefore no restatement of comparative balances relating to 2013 was needed.

For an illustration of the accounting policies relating to associated companies and joint ventures, refer to Part A – Accounting policies in the Consolidated financial statements for 2013, insofar as there has been no change to the definition and the methods of consolidation already used by the Banco Popolare Group.

Regulation no. 1256 of 13 December 2012 – IAS 32

With the cited regulation, the amendments to standard IAS 32 “Financial Instruments: Presentation” approved by the IASB on 16 December 2011, were validated. This amendment introduces several paragraphs to the application guide for the standard, whose purpose is to clarify the way in which the rules in force are to be applied as regards offsetting of financial assets and liabilities in the balance sheet, on the basis of which it is only possible to indicate the net balance when the entity currently has the legal right to offset the amounts recognised in the accounts and intends to extinguish by the net residual amount, or sell the asset and simultaneously extinguish the liabilities. More specifically, it is clarified that the right to offset must not be subject to a future condition precedent and must be legally exercisable both during the normal course of the company’s business and in the event of non-fulfilment, bankruptcy or any other settlement proceeding that regards the entity and all of its counterparts.

Considering the Group’s continuing operations in financial instruments and related contractual agreements, the application of the Regulation in question has not resulted in any changes compared to the previous methods for recognition of balance sheet balances.

Regulation no. 1375 of 19 December 2013 – IAS 39

The change introduced by this regulation requires that where a derivative which has been designated as a hedging instrument is novated from an existing counterparty to a central counterparty as a consequence of laws or regulations, this does not result in the transfer of the hedging relationship, provided that any changes in the hedging instrument are limited to those necessary to substitute the counterparty. In this regard, as at the date of preparation of this report, said amendment is insignificant for the Group, as no novation of hedging derivatives was carried out with central counterparties.

With regard to standards/interpretations whose application is optional in 2014, we draw attention to IFRIC 21 “Levies”, issued on 20 May 2013 and approved with EU Regulation no. 634 of 13 June 2014, the objective of which is to provide guidelines on the recognition in the accounts of several levies that are not covered by standard IAS 12. More

specifically, clarification is provided on the obligating event for the recognition of the liability associated with the levy (such as, for example, the obligation to pay the levy is triggered when a minimum threshold of revenue is reached or by the fact that the entity will be operational at a certain future date). This interpretation is applicable at the latest from the financial year starting 17 June 2014 or subsequently: for the Banco Popolare Group, mandatory application will therefore be effective from financial year 2015. For the purposes of this interim report, the Group has not adopted early application; in any event, as regards the Group's current circumstances, the preliminary analyses conducted have not indicated any significant impact for the Group.

For the sake of completeness, on the date of approval of this interim report, and limited to cases that potentially affect the Group, the IASB has issued the following new standards and interpretations/amendments to existing standards:

- IFRS 9 “Financial instruments” issued on 24 July 2014, which has replaced the previous versions published in 2009 and 2010 as regards “classification and measurement” and in 2013 as regards “hedge accounting”. This publication marks the completion of the reform process for standard IAS 39, which breaks down into the three sections of “classification and measurement”, “impairment” and “hedge accounting”; the review of macro hedge accounting rules has yet to be concluded, although is being managed under a separate project with respect to IFRS 9. In brief, the new standard introduces new rules for:
 - the classification and measurement of financial assets, based on the business model and the characteristics of the instrument;
 - a single impairment model, based on the concept of “forward-looking expected loss”, with a view to guaranteeing a more immediate recognition of losses with respect to the IAS 39 “incurred loss” model, on the basis of which losses can only be recognised if there is objective evidence of impairment subsequent to the initial recognition of the asset;
 - the acknowledgement and recognition of hedge accounting relations, with the objective of guaranteeing greater alignment between the representation of hedges in the accounts and risk management logic;
 - the accounting of so-called “own credit”, namely of changes in the fair value of liabilities designated under the fair value option, attributable to fluctuations of its own creditworthiness. The new standard envisages that these changes must be recognised in a net equity reserve, instead of in the income statement as envisaged instead by standard IAS 39, therefore eliminating a source of volatility from income statement results, which has become particularly evident at times of economic-financial crisis.

The mandatory application of the standard is envisaged from 1 January 2018, with an option for the early application of the standard as a whole or of the changes relating to the accounting treatment of “own credit” for financial liabilities designated at fair value;

- IFRS 15 “Revenues from contracts with customers”, issued on 28 May 2014;
- Changes to standards IFRS 10 and IAS 28 issued on 11 September 2014, which regulate the accounting treatment of transactions entailing selling or assigning assets between an investor and its associate or joint venture, based on whether the transaction can be considered a “business” transaction according to IFRS 3;
- Amendment to standard IAS 27 issued on 12 August 2014, according to which the option to use the net equity method in the separate financial statements to measure investments in subsidiary and associated companies and joint ventures is introduced in addition to the current cost or fair value options;
- Amendments to standards IAS 16 and IAS 38 containing several clarifications on acceptable methods for the recognition of depreciation and amortisation of property and equipment and intangible assets, issued on 12 May 2014;
- Amendments to standard IFRS 11 relating to the accounting of joint ventures, approved on 6 May 2014;
- Amendments to IAS 19 on defined benefit plans, issued on 21 November 2013;
- Project to improve several IFRS (2012-2014), issued on 25 September 2014;
- Projects to improve several IFRS (2010-2012, 2011-2013), approved on 12 December 2013.

None of the above-listed standards apply to this Interim Report on Operations insofar as their application is conditional to EU validation, which had not yet occurred at the date of this report.

Uncertainties with regard to the use of estimates for drawing up the interim report on operations

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements, in reports and in interim reports, as well as the disclosures made on potential assets and liabilities.

The assumptions underlying the estimates made take into account all the information available as of the date of preparation of this interim report on operations, as well as the assumptions considered reasonable in the light of past experience and the current state of the financial markets. In this regard, note that the situation caused by the current economic and financial crisis has made it necessary to make assumptions concerning future performance characterised by significant uncertainty.

Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up the interim

report on operations and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.

The financial statement items affected the most by the situations of uncertainty are represented by amounts receivable, financial assets, investments in associates, intangible assets, deferred tax assets, financial liabilities designated at fair value through profit and loss, provisions for risks and charges and obligations relating to employee benefits. For further details on the valuation processes which require estimates and assumptions to a greater extent, reference is made to the content of the 2013 Consolidated financial statements of the Banco Popolare Group. In any event, it is important to note that, despite the elements of uncertainty that characterise the nature of the items illustrated, the valuations adopted for the purpose of this report on operations have been formulated on the basis of the going concern principle, insofar as the directors have not identified any circumstances relating to operations or to the evolution of the equity and financial situation that could cast doubts as to the ability of Group companies to be able to continue to operate as usual.

The following paragraphs provide an update with respect to that contained in the consolidated financial statements as at 31 December 2013 of the valuation processes that could be characterised by uncertainty, with regard to the impairment of loans and of intangible assets and the accounting treatment of the interest held in the Bank of Italy.

Determination of estimated impairment losses on loans disbursed and other financial assets measured at cost

Value adjustments on individual loans disbursed are estimated based on evidence arising from a careful, constant monitoring of the development of outstanding relations with borrowers and their economic and financial positions. The determination of portfolio adjustments is based on historical data reported in terms of probability of insolvency and the percentage of loss on non performing loans with respect to loan classes with homogeneous characteristics as compared to those under measurement at the reporting date.

Value adjustments in relation to financial assets not designated at fair value, represented by debt instruments classified in the loans portfolio, are estimated based on evidence arising from a careful, constant monitoring of the economic and financial position of issuers.

In this regard, the protraction or worsening of the current economic-financial crisis could result in further deterioration of the financial position of borrowers and issuer counterparties, which may generate losses on loans disbursed or financial assets acquired, greater than that which can be currently estimated and consequently considered in drawing up this interim report on operations.

In addition, it is important to note that following the publication on 26 October 2014 of the results of the Comprehensive Assessment exercise conducted by the European Central Bank, a process to analyse in full the results of the Asset Quality Review was launched and is currently underway. The objective of the analysis is to evaluate the opportunity to intervene on the credit assessment processes ordinarily applied, by adopting, within the range of approaches relating to the estimation processes permitted by the reference accounting standards, assessment parameters that are partially different to those currently used, and more in line with those adopted by the ECB and by the national Supervisory Authority when conducting the Asset Quality Review. The analysis will be completed in good time for the preparation of the end-of-year financial statements. Therefore, we cannot exclude that, following the approval of this Interim Report on Operations, a decision may be taken to apply more conservative valuation parameters than those currently used by the Group, with a consequent negative impact on the Group's balance sheet and income statements and on its economic results.

Estimated impairment losses in relation to intangible assets with an indefinite useful life

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. In addition, the standard establishes that the annual analytical calculation may be considered valid for subsequent tests, provided that the probability that the recoverable value is less than the book value of the intangible assets is considered remote. This opinion may be based on the analysis of the events which have occurred and the circumstances which have changed subsequent to the most recent annual impairment test.

On the basis of the provisions of the cited standard, the Group has opted to conduct impairment testing of intangible assets with an indefinite useful life on 31 December of each year. As at 30 September 2014, the Group's intangible assets with an indefinite useful life amounted to euro 1,811 million, euro 1,589 million of which was represented by goodwill and euro 222 million by trademarks; these assets are those classified as residual at the end of the previous year, for which no adjustment for impairment was made. Euro 838 million of the above intangible assets are allocated to the "Commercial Network" CGU, euro 897 million to the "Private & Investment Banking" CGU, euro 51 million to the "Avipop Assicurazioni" CGU and euro 25 million to the "Popolare Vita" CGU.

For the purpose of this interim report on operations, a review has been carried out to identify the existence of any further impairment indicators beyond those already considered during the end-of-year impairment testing. From the outcome of said review, there does not appear to be any evidence of the presence of further impairment indicators with respect to those already considered in the last test conducted. Therefore the estimated recovery value of intangible assets with an indefinite useful life has not been updated. In the absence of new circumstances which could shed doubt on the recoverability of the book value of the same, this update will be formally conducted only at the time of preparation of the financial statements as at 31 December 2014. However, it is important to note that the parameters

and the information used to verify the recoverability of goodwill (particularly the cash flows envisaged for the various CGUs, as well as the discounting rates used) were heavily influenced by the macroeconomic and market situation, which could undergo changes that cannot be foreseen at the time of preparation of this interim report on operations.

Uncertainties relating to the accounting treatment of the equity interest held in the Bank of Italy

Until 31 December 2013, Banco Popolare held 3,668 stakes in the share capital of the Bank of Italy, representing 1.22% of its share capital, classified in the “Financial assets available for sale” segment and recorded on the balance sheet with a book value of euro 36.5 million, corresponding to the contribution value of the same stakes made by Banca Popolare Italiana as part of the merger that Banco Popolare originated from. This contribution value was the criterion for measuring the investment in question up to 31 December 2013, as up until said date it was deemed that the conditions required by the accounting standard IAS 39 for reliable measurement of the fair value of the equity interest had not been met.

Pursuant to Italian Decree Law no. 133 of 30 November 2013 (“D.L. 133/2013”) converted with Italian Law no. 5 of 29 January 2014, the Bank of Italy increased its share capital through the use of statutory reserves from euro 156,000 to euro 7,500,000,000. The new share capital is broken down into nominative stakes of euro 25,000 each. The financial instruments representing the new stakes have been issued and allocated to those holding share capital of the Bank of Italy, in proportion to their respective stakes.

The new financial instruments issued are entitled to different equity and participation rights to those associated with the stakes held up to 31 December 2013. In particular, the changes are reflected in specific amendments to the Articles of Association of the Bank of Italy approved by the extraordinary shareholders’ meeting of 23 December 2013, which took effect on 31 December 2013 as specified by Law no. 5 of 29 January 2014. These include: (i) limitation to the equity rights of participants to the distribution of yearly dividends from net profits, to an amount not exceeding 6% of capital (sole equity right); (ii) the identification of subjective requirements of parties that intend to hold a stake in the capital of the Bank of Italy; (iii) the introduction of a limit to the size of stakes which may be held in the capital of the Bank of Italy (3%) and the sterilisation of governance and equity rights pertaining to the portion held that exceeds this limit; and (iv) the right of the Bank of Italy to temporarily purchase stakes, in order to favour compliance with the limit to investments.

At the time of preparation of the financial statements for the year ending 31 December 2013, the unique, atypical nature of the operation, also in relation to the fact that this is a government-owned entity whose governance, including that of equity investments, is mandatorily set out by the law, required that the management use its professional judgment in defining the most correct accounting method to represent the operation illustrated. Firstly it must be noted that the share capital increase of the Bank of Italy was unusual in nature and different from the provisions of art. 2442 of the Italian Civil Code, which states that a share capital increase using reserves may be made either through the issue of new shares with the same characteristics as those issued or through an increase in the nominal value of shares issued. In the case in question, the share capital increase was finalised through the issue of new shares with extremely different characteristics than the old shares, with regard to the main equity and participation rights. Given the diversity of equity, administrative and participation rights as regards the stakes in the share capital of the Bank of Italy and after Italian Decree Law 133/2013, the Group retained that the securities representing the stakes in the share capital of the Bank of Italy issued as part of the share capital increase and the related amendments to the articles of association from 31 December 2013, should be considered financial instruments that are different to those held previously, which were subject to replacement and cancellation.

From an accounting perspective, pursuant to the provisions of accounting standard IAS 39, it was therefore retained that the substantial change to the risks and benefits associated with the stakes after Italian Decree Law 133/2013 are such that the old instruments should be cancelled (so-called derecognition) and at the same time the initial recognition of new financial instruments, based on their relative fair value, corresponding to euro 91.7 million. This valuation is consistent with the estimates conducted by a group of experts, shown in a public document available on the website of the Bank of Italy entitled “An update of the value of share capital stakes”. Given the characteristics and the relative intention to hold the same, it was also retained that the appropriate segment is “Financial assets available for sale”. Therefore, gross capital gains of euro 55.2 million were recorded under profit on financial assets available for sale in the financial statements as at 31 December 2013.

Despite the fact that the methods of accounting recognition described are aligned with the approach taken by authoritative legal and accounting experts in the specific opinion circulated by the Trade Association, it must be noted that the European Commission has launched an examination to verify whether the operation could be classified as a type of “State aid” to Italian banks. It is also noted that, as at the date of preparation of this Report, the methods for accounting recognition of the operation are still being analysed at system level. In this regard, note that in Communication no. DIE/0018881 dated 10 March 2014, Consob stated that “*given the complex unique and atypical nature of the operation [...] and given that the procedure for the recognition of the same in the accounts is not expressly regulated by the international accounting standards, all national and international authorities have conducted and are conducting detailed analyses into this matter. Given the above, at the time of the approval of the 2013 financial statements, the board directors will have to adopt, based on the most complete framework of available information, the accounting method retained most appropriate and able to meet the criteria envisaged by international accounting*”

standards. This does not prejudice the fact that the particularly sensitive nature of this topic requires listed companies to provide the most complete disclosure possible in their financial statements". This recommendation was also made in the joint press release made by the Supervisory Authorities - the Bank of Italy, Consob and IVASS - published on 11 March 2014.

Given that the financial statements for the year ending 31 December 2013 contained a detailed and complete disclosure on the accounting method adopted and on the consequent impact on the Group's economic, equity and financial situation, partially referred to in this Report, note that, if the competent authorities opt in the future for a different approach to that adopted by Banco Popolare, a review of the accounting treatment of the operation may be necessary. More specifically, the recognition on the income statement of the capital gain of euro 55.2 million (before tax) may not be retained correct and it may be established that the same should have been recognised by crediting a specific capital reserve with the same amount.

Treatment of the gain recognised for tax purposes

As at 31 December 2013, the tax treatment of the revaluation of the Bank of Italy stakes was regulated by Italian law no. 147/2013 ("stability law"), Article 1, paragraph 148, on the basis of which a substitute tax of 12% should have been applied to the higher values recognised by virtue of Italian Decree Law 133/2013. The tax liability recognised as at 31 December 2013 therefore amounted to euro 7 million; consequently, the net gain recognised in the income statement for 2013 amounted to euro 48.2 million.

As indicated in the "Significant events during the period", on 23 June 2014, Italian Law no. 89 was approved, converting Italian Decree Law no. 66 of 24 April 2014 ("spending review"), which envisages that the substitute tax rate for the revaluation of the stake in the Bank of Italy will be increased to 26%, which will be applied to the nominal value of the stakes, net of the amount recognised for tax purposes. Given the new legal rate, the substitute tax to be paid was recalculated in accordance with IAS 12 standard, resulting in the figure of euro 21.5 million. This resulted in a higher tax burden of euro 14.5 million with respect to the amount allocated in 2013, and said amount was deducted from the income statement in the second quarter of 2014.

Uncertainties relating to deferred tax assets for IRAP transformed into tax credit (tax years 2011 and 2012)

Italian Decree Law 225/2010 introduced a provision to transform deferred tax assets (DTA) into tax credit, relating to write-downs of receivables not yet deducted (pursuant to art. 106, paragraph 3 of the Consolidated Law on Income Tax - ITCL) and to amortisation charges relating to goodwill and other intangible assets (pursuant to art. 103 of the ITCL), in the event that a "statutory loss" had been recognised. In subsequent Italian law 214/2011, the objective scope of application was extended to cases in which a "tax loss" had been recorded.

By virtue of the cited provisions, Banco Popolare therefore transformed the cited DTA into tax credit, with relation to IRES and IRAP taxes, from tax year 2011 onwards.

The transformability of DTA for IRAP into tax credit was sanctioned by an express provision of Italian Law no. 147 dated 27 December 2013 (2014 Stability Law).

In Circular no. 17 of 16 June 2014, issued as a comment to the above-cited Law, the Tax Authority stated, however, that the transformability of DTA for IRAP could only be applied from the tax year ending 31 December 2013.

On the date of this Report, the question of whether this Circular should be taken as interpretation level or otherwise had still not been clarified, with specific reference to the date of effect of the option to transform DTA for IRAP into tax credit and therefore it is not clear whether Banco Popolare should revise the accounting entries made at the time.

Note in this regard that the DTA for IRAP transformed into tax credit for 2011 and 2012 amount to euro 55.5 and euro 30 million respectively. The above tax credits were then offset in the tax periods immediately following (namely 2012 and 2013) with the amounts to be paid by way of an advance.

In the event that the figures in question have to be aligned to the date of effect stated in the cited Circular, the following would have to be recognised:

- the payable resulting from the payment of lower taxes in 2012 and 2013, to match (i) the recognition of the DTA for IRAP, which may be recovered in subsequent years, and (ii) the credit resulting from the deferred tax assets which could have been recovered at the time of the tax returns for the same years;
- the adjustment of the DTA for IRAP recognised on the basis of the above point, in order to reflect the fall in the rate with respect to that used for transformation into tax credit and consequent offsetting;
- the liabilities for the interest due for the lower tax payments made in 2012 and 2013.

We are reasonably confident that no sanction will be applicable in this case, given the situation of objective legislative uncertainty in which the previously cited provisions were applied.

Given the inapplicability of sanctions, adjusting the accounting entries and the taxes paid in accordance with that envisaged at present by the Circular of the Tax Authority, would have an estimated negative impact on the Group's income statement of around euro 4.5 million. This impact is mostly due to the reduction in the IRAP tax rate made in 2013 (euro 3.6 million) and to the difference in the amount of interest expense recorded, to be paid to the Tax Authority.

In this regard, note that the above-described impact on the balance sheet and income statement are not specifically reflected in this interim report on operations, given the uncertainty as to the interpretation of the provisions introduced by the cited Circular.

Scope of consolidation and methods

The Interim report on operations includes the balance sheet and income statement results of the Parent Company and its direct and indirect subsidiaries.

The scope of consolidation is established in accordance with the provisions contained in international accounting standard IFRS 10 “Consolidated financial statements”, which came into effect as of 2014, as indicated in the paragraph above entitled “New accounting standards or amendments to accounting standards validated by the European Commission”, to which readers should refer for further details. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity and is met when an investor simultaneously has:

- the power to decide on relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from the relationship with the entity;
- has the ability to affect the amount of said returns through power over the entity (link between power and returns).

IFRS 10 establishes therefore that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.

The Group therefore consolidates all types of entity when all three control elements are present.

Generally, when an entity is direct by virtue of voting rights, control results from holding over half of the voting rights. In other cases, assessing control is more complex and implies an increased use of judgement, insofar as all of the factors and circumstances that may establish control over the entity must be taken into consideration (actual control). To this end, a set of factors has to be considered, such as, merely by way of example, the purpose and the design of the entity, any right held by means of contractual arrangements, any potential voting rights, the nature and the allocation of any rights held by other investors.

In the case of the Banco Popolare Group, the consolidation of entities that the same controls without having a majority of voting rights regards several special purpose entities, mainly related to securitisation transactions, and certain mutual investment funds, which are consolidated insofar as the Group retains that it has the power to influence the variability of the results which it is exposed to.

More specifically, as regards the mutual investment funds managed by the Group, whether the Group acts as agent or principal has to be verified. The Group is considered as principal and therefore must consolidate funds in cases in which:

- there are no substantial rights that have been removed from the fund manager and held by other investors; and
- the Group is exposed to the variable returns of the fund, by directly holding relevant interest in addition to any other form of risk exposure related to the economic results of the fund; and
- the Group is able to influence said returns by exercising its power.

The reference date of the Interim report on operations coincides with the end date of the Parent Company’s quarterly financial statements. The subsidiary companies which end the period on a date other than that of the Parent Company, also draw up a balance sheet and income statement as of the reference date.

Controlled entities are consolidated from the date on which the Group acquires control and cease to be consolidated from the moment in which a situation of control no longer exists. The existence of control is continuously assessed, when the facts and the circumstances indicate the presence of a change in one or more of the three elements representing the control requirement.

Full consolidation consists in the “line-by-line” acquisition of the balance sheet and income statement aggregates of subsidiary companies. After the attribution of minority interests in shareholders’ equity and income, under a specific item, the value of the investment is eliminated as an offset to the residual portion of the subsidiary’s equity. At the date of initial consolidation, any difference resulting from this operation – after being charged to the subsidiary’s assets or liabilities – is recognised as goodwill under “Intangible assets”, if positive and, if negative (badwill), recognised to the income statement.

The purchase price allocation of business combinations may be determined provisionally, without prejudice to definitive recording of the effects of the business combination within twelve months from the acquisition date, as permitted by the reference international accounting standard - IFRS 3.

Once control has been obtained, any further increase or decrease in the shareholding of a subsidiary company which continues to be controlling is recorded as a transaction between shareholders: the book value of the group and minority shareholders’ equity is therefore adjusted to reflect the changes in the holding in the subsidiary.

The assets, liabilities, revenues and expenses between the consolidated companies are eliminated in full. Intragroup derivatives relative to financial liabilities issued by the parent for which the fair value option has been exercised are exempted. The purpose of this exemption is to enable the correct allocation between the “trading portfolio” and the “banking portfolio” and that of the risks related to the same, as better illustrated in detail in the Consolidated Financial Statements for 2013, to which the reader is referred. In this regard, it must be noted that the non-cancellation does not change the representation of the income statement result, the comprehensive income or the shareholders’ equity of the Group; asset and liability balance sheet items simply show an “expansion” of the balances. More specifically, as at 30 September 2014, the balance sheet asset item “20. Financial assets held for trading” includes intragroup derivatives of

euro 508.3 million, with the same amount represented in the liability item “40. Financial liabilities held for trading” (euro 641.1 million is the amount of intragroup derivatives not cancelled for consolidation as at 31 December 2013).

The income statement results of a subsidiary acquired during the year are included in the consolidated financial statements starting from the date of acquisition. Conversely, the income statement results of a subsidiary sold are included in the consolidated financial statements up to the date of sale. The difference between the sale price and the book value at the date of disposal, including any exchange differences recorded period by period in shareholders' equity on consolidation, is recognised in the income statement.

Where necessary, the financial statements of consolidated companies, possibly drawn up on the basis of different accounting criteria, are rendered compliance with the standards of the Group.

The balance sheet and income statement results of the consolidated companies whose operating currency is different from the Euro are translated based on the following rules:

- balance sheet assets and liabilities are translated at the exchange rate in effect at the end of the period;
- revenues and costs on the income statement are translated at the average exchange rate for the period;
- all exchange rate differences originated by the translation are recognised in a specific and separate reserve under shareholder's equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of.

Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale.

Based on the reference accounting standards IFRS 11 and IAS 28, the Group's consolidated financial statements also include, where such exists, the results of equity investments in jointly-controlled companies and in companies over which it has a significant influence (associated companies). For the definitions of joint control and significant influence and the relative accounting approach, please refer to the content of the Consolidated Financial Statements for 2013. Investments in subsidiary companies exclusively consolidated on a line-by-line basis are listed below.

Company name	Registered office	Type of relationship (a)	Investment relationship Holder	% held	% of available votes (b)
Banco Popolare soc. coop.	Verona	Parent Company			
Aletti & C. Banca di Investimento Mobiliare S.p.A.	Milan	(1)	Banco Popolare Holding di Partecipazioni	83.440% 16.560%	
Aletti Fiduciaria S.p.A.	Milan	(1)	Banca Aletti & C.	100.000%	
Aletti Gestielle SGR S.p.A.	Milan	(1)	Banco Popolare	100.000%	
Arena Broker S.r.l.	Verona	(1)	Holding di Partecipazioni	57.300%	
Banca Aletti & C. (Suisse) S.A.	CH - Lugano	(1)	BP Luxembourg	100.000%	
Banca Italease S.p.A.	Milan	(1)	Banco Popolare	100.000%	
Banca Italease Funding LLC	USA - Delaware	(1)	Banca Italease	100.000%	
Banca Italease Capital Trust	USA - Delaware	(1)	Banca Italease Funding LLC	100.000%	
Banca Popolare di Lodi Capital Company LLC III	USA - Delaware	(1)	Banco Popolare	100.000%	
Banca Popolare di Lodi Investor Trust III	USA - Delaware	(1)	B. Pop. di Lodi Cap. Co. LLC III	100.000%	
Banco Popolare Luxembourg S.A.	L - Luxembourg	(1)	Banco Popolare	100.000%	
Bipielle Bank (Suisse) S.A. (in liquidation)	CH - Lugano	(1)	Banco Popolare	100.000%	
Bipielle Real Estate S.p.A.	Lodi	(1)	Banco Popolare	100.000%	
BRF Property S.p.A.	Parma	(1)	Partecipazioni Italiane Banco Popolare	51.114% 14.314%	
BP Covered Bond S.r.l.	Milan	(1)	Banco Popolare	60.000%	
BP Property Management Soc. Consortile a r.l.	Verona	(1)	Banco Popolare Bipielle Real Estate Banca Aletti & C. S.G.S. BP Aletti Gestielle SGR Holding di Partecipazioni	92.309% 4.615% 1.000% 1.000% 0.538% 0.538%	
BP Trading Real Estate S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Essegibi Promozioni Immobiliari S.p.A.	Milan	(1)	Italease Gestione Beni	100.000%	
FIN.E.R.T. S.p.A. (in liquidation)	Rome	(1)	Banco Popolare	80.000%	
HCS S.r.l.	Milan	(1)	Italease Gestione Beni	100.000%	
Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Verona	(1)	Banco Popolare	100.000%	
Italease Finance S.p.A.	Milan	(1)	Banca Italease	70.000%	
Italease Gestione Beni S.p.A.	Milan	(1)	Banca Italease	100.000%	
Liberty S.r.l.	Lodi	(1)	Banco Popolare	100.000%	

Company name	Registered office	Type of relationship (a)	Investment relationship		% of available votes (b)
			Holder	% held	
Lido dei Coralli S.r.l.	S.T. di Gallura (SS)	(1)	Bipielle Real Estate	100.000%	
Mariner S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Milano Leasing S.p.A. (in liquidation)	Milan	(1)	Banco Popolare	99.999%	
Nadir Immobiliare S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Partecipazioni Italiane S.p.A. (in liquidation)	Milan	(1)	Banco Popolare	99.966%	100.000%
P.M.G. S.r.l. (in liquidation)	Milan	(1)	Banco Popolare	84.000%	
Release S.p.A.	Milan	(1)	Banca Italease	80.000%	
Sirio Immobiliare S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Società Gestione Servizi BP Soc. Consortile p. az.	Verona	(1)	Banco Popolare	88.500%	
			Banca Aletti & C.	10.000%	
			Aletti Gestielle SGR	0.500%	
			Bipielle Real Estate	0.500%	
			Holding di Partecipazioni	0.500%	
Sviluppo Comparto 6 S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Sviluppo Comparto 8 S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Tecmarket Servizi S.p.A.	Verona	(1)	Banco Popolare	100.000%	
Tiepolo Finance S.r.l.	Lodi	(1)	Banco Popolare	60.000%	
Tiepolo Finance II S.r.l.	Lodi	(1)	Banco Popolare	60.000%	
TT Toscana Tissue S.r.l.	Pisa	(1)	Banco Popolare	100.000%	
Verona e Novara (France) S.A. (in liquidation)	F – Paris	(1)	BP Luxembourg	99.748%	99.802%
Bipitalia Residential S.r.l. (**)	Milan	(4)	Banco Popolare	4.000%	
BP Mortgages S.r.l. (**)	Brescia	(4)	-	0.000%	
BPL Mortgages S.r.l. (**)	Conegliano V. (TV)	(4)	-	0.000%	
BPV Mortgages S.r.l. (**)	Verona	(4)	-	0.000%	
Erice Finance S.r.l. (**)	Conegliano V. (TV)	(4)	-	0.000%	
Gestielle Hedge High Volatility (***)	Milan	(4)	Banco Popolare	68.063%	
			Banca Aletti & C.	8.027%	
Gestielle Hedge Low Volatility (***)	Milan	(4)	Banco Popolare	56.643%	
			Banca Aletti & C.	3.855%	
Gestielle Hedge Multi-Strategy (***)	Milan	(4)	Banco Popolare	75.539%	
			Banca Aletti & C.	9.612%	
Gestielle Hedge Opportunity (***)	Milan	(4)	Banco Popolare	74.711%	
Gestielle Multimanager Absolute Return Plus (***)	Milan	(4)	Banco Popolare	70.499%	
			Banca Aletti & C.	7.813%	
Italfortune International Fund Sicav (***)	L - Luxembourg	(4)	Banco Popolare	89.018%	
Italfinance RMBS S.r.l. in liquidazione (**)	Trento	(4)	-	0.000%	
Italfinance Securitisation VH 1 S.r.l. (**)	Conegliano V. (TV)	(4)	Banca Italease	9.900%	
Italfinance Securitisation VH 2 S.r.l. (**)	Conegliano V. (TV)	(4)	-	0.000%	
Leasimpresa Finance S.r.l. (**)	Conegliano V. (TV)	(4)	-	0.000%	
Pami Finance S.r.l. (**)	Milan	(4)	-	0.000%	

(a) Type of relationship:

(1) Control under art. 2359 Italian Civil Code, paragraph 1, no. 1 (majority of voting rights in ordinary shareholders' meeting)

(4) Other forms of control

(b) The availability of effective votes during Ordinary Shareholders' meetings is only indicated if it differs from the percentage of investment in the share capital.

(*) Company undergoing disposal as per IFRS 5.

(**) Special Purpose Entity for securitisation transactions originated by the Group.

(***) UCIT units managed by the Group.

Changes in the scope of consolidation

The changes in the scope of consolidation with respect to the situation as at 31 December 2013 are shown in the table below:

Companies consolidated line-by-line	
Companies no longer consolidated due to mergers	
Name of merged company	Name of merging company
Credito Bergamasco S.p.A.	Banco Popolare Soc. Coop.
Aletti Trust S.p.A.	Aletti Fiduciaria S.p.A.
RI Investimenti Due S.r.l.	Sviluppo Comparto 8 S.r.l.

Company no longer consolidated due to disposal

Banco Popolare Croatia d.d.

Companies no longer consolidated due to company liquidation

Seefinanz S.A. (in liquidation)

Royle West (in voluntary liquidation)

Companies consolidated at equity**Companies no longer consolidated due to company liquidation**

Phoenix S.p.A. (in liquidation)

Estates Capital Venture S.A. (in liquidation)

For further details on the transactions described, please refer to the section that illustrates the significant events that occurred during the period.

OPERATING PERFORMANCE OF THE GROUP

Economic scenario

The international scenario

After lower growth than forecast in the first half of the year, the global recovery appeared to be even more uncertain and contained in many areas in the third quarter. The expectations of operators are being further dampened by the weak economy. Continuing cyclical conditions, which are substantially different in the Eurozone, practically stagnant, and in the United States, where the recovery is gaining momentum, has led to a growing misalignment between monetary policies. In general, compared to the first half of the year, the risks linked to the international macroeconomic scenario have actually risen.

More specifically, according to initial estimates available, after having risen by 4.6% in the second quarter (annualised), the US GDP recorded a rise of 3.5% in the third quarter, due to the positive contribution of private consumption, which rose by 1.8%, albeit at a slower pace than the +2.5% recorded in the previous quarter, of non-residential private investment, which rose by 5.5% (9.7% in the previous period) - within which investment in machinery increased by 7.2% (11.2% previously) - and exports, which rose by 7.8% (11.1%) against a fall in imports of 1.7% (+11.3% previously). Federal Government consumer spending also rose by 10% (compared with a fall of 0.9% the previous quarter), the fall in inventories resulted in a 0.57% decrease of this aggregate (against a positive contribution of 1.42% previously). The consolidated growth figure for consumer spending confirms, in particular, the positive impact of the improved conditions of the labour market on the economy: in the summer months, employment in the non-agricultural sector continued to record stable levels and, in September the rate of unemployment decreased to 5.9%.

With regard to the other major economies, in Japan GDP in the 3rd quarter should have risen, based on the highly expansive monetary policies still in place. Available estimates indicate a rise of between 2% and 3% (annualised) (-7.1% in the 2nd quarter). In China, GDP, which in the second quarter had benefited from the incentive measures in the real estate and infrastructure sectors, slowed slightly to 7.3% yoy in the third quarter (from 7.5% in the previous one). Weaker domestic demand contributed to this, not entirely offset by the recovery of foreign demand, not to mention the continuing signs of weakness shown by the real estate sector.

In the BRIC, India appeared rather lacklustre in the third quarter, after recording higher growth than expected in the second. Lastly, in Russia, after the downtrend of GDP in the spring, a further slowdown in growth is expected in the second half of the year, due to the economic sanctions imposed by the European Union and the United States at the end of July.

World trade reflected the fall in imports of emerging countries in the first half of the year, although recorded a modest recovery in the second quarter (2.7% over the space of a year, from -2.7% in the first quarter). In the light of the worsening international scenario the International Monetary Fund may revise the positive trend envisaged for the third quarter to a lower figure.

International inflation positively reflected the lower prices of raw materials. More specifically, oil prices fell significantly in the third quarter: in mid-October, the price of Brent crude oil fell to 85 dollars a barrel, from a peak of 115 in mid-June.

The Eurozone and Italy

In the third quarter, recovery in the Eurozone continued to be weak: the persistent lack of vitality in terms of investment was only partially offset by a relatively lively consumption trend, and by foreign demand, which maintained a fair uptrend. Economic indicators confirm, to date, a period of modest recovery, which continues to be penalised by the aftermath of geopolitical tension in the Ukraine and the Middle East, which has had a marked impact on the confidence

of households and businesses: the PMI for the area fell in August and September, and was just over the threshold indicating business expansion. Despite the depreciation of the euro, and the relative improvement in price competitiveness, the export trend reflected the fall in demand of emerging economies. By contrast, the inertial recovery of the labour market, not enough to lead to a significant fall in the rate of unemployment, and the rise in wages in real terms, due to lower inflation, gave a boost to private consumption, which is estimated to be on a slight uptrend.

More specifically, forecasts available for GDP in the third quarter agree on a rise of 0.2% compared to the second quarter of 2014 (+0.8% yoy) as a result of the 0.1% rise in consumption (+0.7% compared to the same quarter of 2013) and of the 0.3% rise in investments (+1.1%). Although the average figure has deteriorated, overall performance continues to hide a high level of discontinuity between Eurozone economies: although Germany recorded a slowdown, it continues to be the Eurozone's most lively economy, while Italy, and now France, stand out due to their growing economic weakness.

In this context, inflation continues to fluctuate, with forecasts for a situation of deflation, which will make the recovery of the economic imbalances present in the Eurozone particularly difficult. The consumer price trend, which fell to 0.3% yoy in September, the lowest level since November 2009, reflects the continuing wide margins of unused production capacity.

After weakening again, following the fall in investments recorded in the spring, in the third quarter, according to initial estimates, the Italian economy is expected to further deteriorate, leading to a scenario of deflation/depression, hand in hand with the slowdown of the Eurozone. Against a modest improvement in household consumption and a slackening export trend, which continues to reflect the geopolitical tension cited previously, production activity in industry and construction reflected the uncertainty of future demand at the beginning of the third quarter. During the summer, confidence indicators, which to date had continued to improve, worsened in all of the major production sectors, hindering the re-launch of capital accumulation. Uncertainty regarding the overall trend of demand and continuing wide margins of unused production capacity further influenced corporate decisions on capital accumulation and desired levels of stock, once again penalising investment throughout the period.

The economic indicators available to date confirm this weaker scenario. More specifically, after improving 0.9% over the previous month (0.4% yoy) in June, in July industrial production fell by 1.0% against the previous month (-1.8% against the same month of 2013) and in August improved by only 0.3% against the previous month (-0.7% yoy). In line with this, available estimates indicate a fall of 0.3% in GDP for the third quarter against the previous one and a fall of 0.4% yoy. This is the result of the marginal rise in household consumption (+0.2% against the previous quarter) and of the further slowdown of all of the other components: -0.4% gross exports (-3.5% net of imports), -1.1% investment in machinery, equipment and vehicles and -1.0% construction, not to mention the negative contribution of the trend of inventory. Weak economic activity had repercussions on inflation: the trend of consumer prices in harmonised terms was slightly negative in both August and September (-0.2% and -0.1% against the same period of 2013) also due to the fall in energy and food commodity prices.

The financial markets and monetary authority and fiscal measures

The above-mentioned misalignment of the economic cycle in the Eurozone with respect to the Anglo-Saxon economies (United States and United Kingdom) was accompanied by a divergent trend of monetary policy. The recent measures adopted by the FED and by the Bank of England, addressed towards a less accommodating approach, tend, over time, to reduce this gap, also considering the ECB's sway towards expansive monetary policy. The FED has continued along the path of reducing monthly purchases of mortgage-backed securities (MBS) and long-term Treasury bonds, which fell from 85 billion dollars in January to the current 15 billion. In September, the Executive board of the European Central Bank made the orientation of monetary policy even more accommodating, reducing the official interest rates, and bringing the interest rate on main refinancing operations to 0.05% and that on bank deposits to -0.20%. Furthermore, the ECB adopted new unconventional measures to encourage the flow of credit to the economy and to extend the Eurosystem's balance sheet: in the next few months, it will launch an initiative, which is set to last at least two years, to purchase securities issued following the securitisation of bank loans to enterprise and households (Asset-Backed Securities Purchase Programme) and covered bonds (Covered Bond Purchase Programme). On 18 September, the first Targeted Long Term Refinancing Operation (TLTRO) was performed: 255 intermediaries in the Eurozone participated obtaining funds totalling euro 82.6 billion, of which just under euro 30 billion was disbursed to counterparties of the Bank of Italy. Lastly, the ECB reconfirmed its commitment to use further unconventional instruments, if the need to counter the risks linked with a prolonged period of low inflation should arise.

The reduction of the official interest rates had an immediate impact on the conditions of the money and financial markets and on the exchange rate. On average, in September the Eonia rate fell by around 10 b.p. (basis points) against the average figure recorded in June, settling just below zero at the beginning of October; the 3-month no-guarantee interbank rate (Euribor) fell by 15 b.p., settling at 0.08%. Over the course of the summer, the European Government Bonds market relaxed further, particularly in PIGS countries, where the spread between their currencies and the German Bund continued to narrow. Gross yields on 10-year BTP reached a record low of 2.27% at the beginning of September. Lastly, as mentioned earlier, due to the different approaches to monetary policy adopted by the FED and ECB, the European currency weakened over the quarter: the Euro depreciated by 6% against the dollar. Lastly, in the securities market, after having recovered from the fall triggered by the deterioration of conflicts in the Ukraine and the Middle East, from the second half of September, share prices started to fall: if the prices at the end of June are

compared to those of mid-October, share indices fell by around 4% in Japan and the USA and by almost 9% in the Eurozone.

The Italian banking system

With regard to loan brokering, deposits fell due to the continuing decrease in the stock of bank bonds, to the fall in time deposits with longer maturities and repurchase agreements, penalised by yields in line with those of the market and therefore close to zero. The fall in this aggregate was contained thanks to the good performance of demand deposits. Based on the estimates of the ABI, in September, customer deposits in Italian banks fell by 0.6% compared to the same month of 2013, as a result of a total rise in deposits of 3.8% and a significant fall of 10.6% in the stock of bonds issued, net of those repurchased by the banking system (total issues fell by -13.4%). To confirm the preference of savers for more liquid assets, within the first aggregate as at August - latest figures available - current accounts rose by 6.3%, while deposits with fixed maturities fell by 4.0% compared to the same period of 2013. Deposits redeemable with notice were instead substantially stable, falling by only -0.1%.

As regards bank assets, the Bank Lending Survey conducted by the ECB showed that the demand from enterprise had cooled down due to the weaker economic scenario and the fall in requirement for funding, following the fall in gross investment. Supply conditions on the other hand improved, both due to the cited fall in the official interest rates implemented in July, and by virtue of the narrower spread between the 10-year Bund and Government Bonds with the same maturity.

In this context, total assets fell, despite a more lively demand trend recorded for households, against the continuing weak performance of the real estate market. More specifically, total loans to households and financial companies fell by 0.9% in September against the same month of 2013. If we break down the same by maturity, loans of up to one year showed the most marked fall, -2.6%, while medium-long term loans fell by 0.3%.

Credit quality maintained its downtrend, due to renewed economic difficulties although dampened by more stable levels of self-financing by companies, which were substantially unchanged during the quarter. In August, latest figures available, gross bad loans rose by 22.6% compared to the same period of 2013, recording a figure of euro 32.1 billion, while net bad loans rose by 8.2% over the same period.

The cut in interest rates implemented by the ECB triggered a further reduction in the cost of funding, at the same time, boosting cash loan margins. Over the period, interest income and expense recorded a fluctuating trend, which was more marked for the latter: the first, relating to retail and non-financial corporate customers, was 3.76% as at September 2014, against 3.81% in September 2013. Interest expense, relating to the total funding aggregate, fell to 1.59%, from 1.92% in September 2013. Overall interest rates on deposits in euros fell from 1.02% to 0.78% in the same period, while those on bonds fell from 3.43% to 3.21%. In September 2014, the spread between interest income and interest expense rates was 2.17% against 1.89% in September 2013. The mark-up – given by the difference between the average interest rate on loans in Euro to retail customers and non-financial businesses and the 3-month Euribor – reached 366 b.p. as at September 2014 against 359 b.p. a year earlier, while the mark-down (calculated as the difference between the 3-month Euribor and the interest rate on total funding) improved for the banking industry, increasing by 21 b.p., from -170 b.p. in September 2013 to -149 b.p. in September 2014.

In the first half of the year, the equity situation of the banking industry improved due to the completion of several different share capital increases: based on consolidated half-yearly reports, in June, the Common Equity Tier 1 ratio of the five major banking groups was 12.0% on average; the new Tier 1 ratios and the total capital ratio were 12.5% and 16.2% respectively. This improvement of the equity structure means that now only two Italian banking groups are not in line with the minimum capital requirements envisaged by the European Banking Authority in conditions of stress, as part of the tests conducted jointly with the ECB, the results of which were announced towards the end of October. Banco Popolare, as illustrated in more detail below, passed the above-mentioned tests with flying colours, following the measures taken over the year to strengthen its equity base.

Significant events during the period

The main events which occurred during the first nine months of the year are described below.

Redemption of the convertible bond and share capital increase

At the meeting held on 24 January 2014, Banco Popolare's Board of Directors resolved to fully redeem the Banco Popolare 2010/2014 4.75% convertible bond through payment in cash. At the natural maturity date of the loan (24 March 2014) each outstanding convertible bond was therefore redeemed through payment of an amount equal to the nominal value (euro 6.15 each), for a maximum total of euro 996 million in addition to interest at the rate set out in the Regulations of the loan.

At the same meeting, the Board approved a share capital increase for a maximum amount of euro 1.5 billion, through the issue of ordinary shares to be offered under a payment option to shareholders. Furthermore, to simplify the administrative processes of managing the high number of shares issued, the Board of Directors resolved on a reverse

share split of 1 new ordinary share with standard entitlement for each 10 existing ordinary shares, to be executed prior to the launch of the offer under option.

The proposed share capital increase was submitted to the Extraordinary Shareholders' Meeting on 1 March 2014, which approved the same with a large majority, assigning the Board of Directors the power, pursuant to art. 2443 of the Italian Civil Code, to increase the share capital by up to the maximum amount previously indicated, by the end of 24 months from the date of the shareholders' meeting resolution, and the power to establish, closer to the offer, the issue price of newly-issued ordinary shares, the option ratio and entitlement.

On 4 March, the Board of Directors resolved, in accordance with the resolution of the Extraordinary Shareholders' Meeting on 1 March and following the approval issued by the Bank of Italy, to proceed with the share capital increase for the total amount of euro 1.5 billion, and at a subsequent meeting held on 27 March, it approved the final conditions for the offer under option. More specifically, the Board of Directors resolved to increase the share capital, on a splittable basis, for a maximum counter value of euro 1,498,263,975 in a single tranche, to be allocated entirely to the share capital, through the issue of a maximum of 166,473,775 ordinary Banco Popolare shares to be offered under option to shareholders, at a swap ratio of 17 shares for each 18 shares held, at a price of euro 9 each, corresponding to a discount of 30.70% with respect to the "theoretical ex right price".

The new shares have standard entitlement (1 January 2014) and the same characteristics as the ordinary shares in circulation at the time of issue.

The offer under option ended on 17 April with the subscription of 99.138% of the total shares offered, at a total counter value of euro 1,485,346,797. In the space of just two days, all of the 1,519,668 rights not exercised during the option period were then also sold. The share capital increase was therefore successfully concluded on 29 April 2014 with the full subscription of the 166,473,775 shares at a total counter value of euro 1,498,263,975, without the intervention of the consortium of banks that had guaranteed the placement.

In accounting terms, the above operation led to an increase of the Group's capital resources (share capital and share premium) of euro 1,459.4 million; in actual fact, both the transaction costs directly incurred for the share capital increase and the income resulting from the sale of unopted rights, both net of the relative tax, are recognised in the share premium reserve. As at the date of this report, the cited components led to a net deduction from the share premium reserve of euro 39 million.

As a result of the share capital increase, the Group therefore reached a level of capitalisation, which enables it to amply meet the capital requirements envisaged after the entry into force of the new prudential supervision rules introduced as of 1 January 2014, commonly known as "Basel 3". The increase in shareholders' equity will also allow Banco Popolare to reduce its costs of funding and acquire the degrees of freedom it needs to boost credit-related activities, to the advantage of retail customers and businesses in its local areas.

Events relating to the process to simplify corporate structure and organisation

Merger of Credito Bergamasco into Banco Popolare

Verification of the Exchange Ratio and decision on the formula for adjustment of the exchange ratio

Following the approval of the share capital increase of Banco Popolare described above, at the meeting of 17 February 2014, the Board of Directors assessed the impacts of the same on the Exchange Ratio and, more generally, on the merger by incorporation of Credito Bergamasco into Banco Popolare resolved previously.

Given that the final ratio could only have been expressly established at the end of the reverse share and share capital increase transactions underway at the time, after in-depth analyses conducted with the assistance of the advisor, the Board of Directors verified that the Exchange Ratio, on the assumption that the share capital increase and the related reverse share transaction are carried out, had been calculated on the basis of the following formula:

$$\text{Exchange Ratio} = [(1,763,730,870 + N) / 61,726,847 \times 1 / 3.935] \times 1 / \text{Reverse Share Split Ratio}$$

Where:

- 1) 1,763,730,870 = Banco Popolare shares issued at 14 February 2014;
- 2) "N" = new Banco Popolare shares issued for the share capital increase of euro 1.5 billion;
- 3) 61,726,847 = Credito Bergamasco shares issued at 14 February 2014;
- 4) 3.935 = ratio of the absolute value attributed to Banco Popolare to the absolute value attributed to Credito Bergamasco by the Board of Directors of Banco Popolare;
- 5) reverse share split ratio for Banco Popolare shares: corresponding to 10, i.e. 1 new ordinary share with standard entitlement for each 10 existing ordinary shares, to be executed prior to the launch of the offer under option.

The final Exchange ratio, established according to the above formula, was set by the Board of Directors of the Parent

Company at a meeting held on 27 March as 1.412 ordinary Banco Popolare shares for each ordinary Credito Bergamasco share offered in exchange.

None of the Credito Bergamasco shareholders exercised their right to withdraw.

On the effective date of the merger, 1 June, Banco Popolare increased its share capital by a total amount of euro 300,582,215, through the issue of 19,332,744 new ordinary shares allocated to Credito Bergamasco shareholders. The ordinary shares of Credito Bergamasco were withdrawn from trading as of 2 June.

In accounting terms, the cited exchange operation represents a transaction between shareholders in accordance with accounting standard IFRS 10, and therefore led to a reduction of the net shareholders' equity pertaining to minority interest (namely the minority interests of Credito Bergamasco) and a corresponding increase of group shareholders' equity, of euro 289.3 million.

The net costs of the transaction directly related to the merger operation, which as at the date of this interim report on operations, amount to euro 2.8 million, have been deducted as a balancing entry from other net shareholders' equity reserves.

The finalisation of the above operation marks the completion of the project to simplify the corporate and administrative structure, launched by Banco Popolare in 2011 with the integration of the network banks into the Parent Company. The integration of Credito Bergamasco lays the foundations for the full enjoyment of the benefits resulting from the reduction of corporate complexity. Starting with the positive contribution represented by the Group's capital standing, it will also create: the full rationalisation of Banco Popolare's distribution network; the reduction of administrative costs, also resulting from centralising duplicate functions and tax burdens. The operation will also enable the strategies set at Group level to be better and more rapidly implemented.

Lastly, on 22 September, the IT migration of Credito Bergamasco to the target system of Banco Popolare was successfully completed and, on the same date, 9 branches of the Division were closed, as envisaged in the plan to rationalise the Group's branch network.

Merger of Banca Italease into Banco Popolare

In a meeting held on 1 April 2014, the Board of Directors of the Parent Company approved the proposal for the merger by incorporation of Banca Italease into Banco Popolare, made at the end of 2013. On 28 March, the Shareholders' Meeting of Banca Italease, in extraordinary session, had resolved to approve the proposed merger and therefore to proceed with the incorporation of the same into Banco Popolare.

The incorporation of Banca Italease will be performed with the simplified procedure envisaged by the Italian Civil Code for wholly-owned companies, insofar as Banco Popolare, following the transfer of the share of 14.657% of the share capital from Holding di Partecipazioni Finanziarie BP to the Parent Company finalised in April and the subsequent incorporation of Credito Bergamasco, in which Banca Italease held 2.923%, currently holds 100% of Banca Italease's share capital.

The merger of Banca Italease, which was originally expected to be legally effective from 24 November 2014, was postponed to the first quarter of 2015; it will take effect for accounting and tax purposes as of 1 January 2015.

At the same time, the integration of Banca Italease into Banco Popolare, from an organisational and IT perspective is also envisaged, through the establishment of a "Leasing Division", directly reporting to the Managing Director.

Merger of Aletti Trust into Aletti Fiduciaria

On 31 March, the merger by incorporation of Aletti Trust S.p.A. into Aletti Fiduciaria S.p.A was finalised, the merger will be effective for accounting and tax purposes as of 1 January 2014. The merger took place without an exchange ratio, or cash payment, and did not entail any share capital increase for the incorporated company, insofar as both companies are wholly owned by the parent company Banca Aletti.

Merger of RI Investimenti Due into Sviluppo Comparto 8

On 30 June, the merger by incorporation of RI Investimenti Due S.r.l. into Sviluppo Comparto 8 S.r.l. was finalised.

The merger, which took place without the exchange of shares or cash, resulted in the termination of the incorporated company, and the cancellation of its share capital; the merger will be effective for accounting and tax purposes from 1 January 2014.

Evolution of the network distribution model

In 2014, the project pertaining to the evolved form of the network distribution model, to reduce customer service costs, among other benefits, was already able to provide partial proof of its effectiveness with the implementation of the numerous measures, including:

- the introduction of a more flexible Network distribution structure, with the use of a new "Hub and Spoke" model in about 70% of the Group Network;

- the conversion of over 110 branches into “Business Branches” and the consequent elimination of 76 Business Centres in the BPV, BPL and BPN Divisions;
- the closure of 9 Business Areas;
- the continuation of efforts to simplify and develop the “chain of responsibility” by adopting an approach of “Private Individuals” and “Enterprises”, abandoning the “Retail” and “Corporate” classification and centralising the management of Large Corporate customers (National and Local) with revenues exceeding euro 250 million, previously in the hands of the Business Areas of the Departments, to the Business Department at Banco Popolare’s Head Office.

A project to streamline the Group’s Branch Network is currently under way, and is expected to be fully implemented by the end of 2014, which regards the closure of branches belonging to Banco’s four Divisions. In this regard, the reader should refer to the section entitled “Significant events after the end of the period”.

Also taking into consideration the above-mentioned merger of Credito Bergamasco into the Parent Company, and with regard to the whole year, the operation involves over 110 branches identified, which are in one or more of the following situations:

- territorial overlap with respect to other Group branches;
- limited contribution to net interest and other banking income, also due to its small size;
- location in isolated provinces with respect to the other branches;
- problematic credit situation.

The closure of these branches has made it possible to proceed, in addition to that already envisaged in the Project to develop the distribution model, with the further reduction of the number of Business Areas, in particular, cutting the current 5 areas in Sicily down to 4 and the current 4 in Rome down to 2.

Events relating to the management of investments in subsidiaries, associates and joint ventures

Sale of the subsidiary Banco Popolare Croatia

In January Banco Popolare and OTP Banka Hrvatska, a subsidiary of the Hungarian Group OTP, signed an agreement for the sale to the latter of the entire investment held by the Parent Company in the share capital of Banco Popolare Croatia d.d.

The transaction, conditional to obtaining all the necessary authorisations from the competent supervisory authorities, envisaged the payment of a consideration of around 107 million Kunas (equal to about euro 14 million) relating to the entire share held by Banco Popolare, equal to around 99% of the ordinary share capital.

At the time of the preparation of the consolidated financial statements for the year ending 31 December 2013, the assets and liabilities belonging to the Croatian subsidiary were reclassified under “Assets and relative liabilities relating to disposals” aligning their total net value to the sale price, after the relative expenses.

On 24 April 2014, after obtaining authorisation from the competent Authorities, Banco Popolare executed the contract of sale; a cash payment was received for the same. Following the sale, BP Croatia is no longer part of the Banking Group.

The operation did not have an impact on the balance sheet or income statement for the current year.

In line with the strategies established by Group management, the above-illustrated operation completed the process of focusing on its core business of domestic banking, launched with the previous sales of subsidiaries in the Czech Republic, Romania and Hungary.

Winding-up of Group companies

On 24 January 2014, to complete the winding-up procedure, the striking off of the company Seefinanz AG in liquidation from the Commercial Register of Canton Ticino became effective. The strike-off was published in the Swiss Official Trade Journal on 29 January 2014.

On 31 March 2014, the winding-up of the associated company Phoenix S.p.A. (in liquidation), which the Parent company held a 40% stake in, was completed, following the striking off of the same from the Company Register of Verona, while in May, its 99% stake in the Irish subsidiary Royle West was wound up following the completion of the liquidation procedure.

Lastly, in June, the associated company Estates Capital Venture S.A. in liquidation, in which the Parent Company held 43.368% of share capital, was wound up, and was consequently struck off the Company Register of Luxembourg.

Sale of Eurovita Assicurazioni

After obtaining the approval of the competent Authorities, on 30 June 2014, Banco Popolare, Aviva Italia Holding and Finoa executed the contract to sell 79.62% of Eurovita Assicurazioni S.p.A. to JCF III Eurovita Holdings S.a.r.l., a special purpose vehicle of the Private Equity Fund JC Flowers & Co LLC for a total consideration of euro 47 million.

The only asset held by Finoa, a Joint Venture in which Banco Popolare and Aviva hold equal shares, was a 77.55% stake in Eurovita, an insurance company, which distributes its products through a widespread network of regional and local branches in Italy, while Banco Popolare held a 2.07% share directly in the latter.

At the same time as the above operation, Banco Popolare and Aviva started the procedure to wind up the Joint Venture in Finoa.

The operation did not have an impact on the balance sheet or income statement, as the value of the investee company was already aligned to the sale price.

Other events in the period

Exercise of put option on RCS Media Group S.p.A. ordinary shares

On 18 February 2014, as a result of the Board of Directors resolution of 17 February 2014, Banco Popolare exercised the put option ("Put Option"), granted by Pandette Finanziaria S.r.l. ("Pandette") to Banco Popolare concerning the sale of 3,870,900 ordinary shares of RCS Media Group S.p.A., (the "RCS" shares) and therefore under the sale and purchase option contract signed by Banco Popolare and Pandette on 29 November 2006, and partially amended by the agreement signed on 21 February 2009. In the press release relating to the exercise of the Put Option, the sale price of RCS shares was established by Banco Popolare at euro 113.5 million. With regard to the exercise of the Put Option, and until said option is settled, Banco Popolare boasts a receivable from Pandette corresponding to the consideration for the sale of the RCS shares, recorded in the accounts under "financial assets held for trading".

On 24 February 2014, Pandette challenged the quantification of the consideration made by Banco Popolare. According to Pandette, the consideration for the sale of the RCS shares under the Put Option should be euro 31.4 million.

On the same date, Banco Popolare reiterated the grounds underlying its calculation of the consideration and, on 12 March 2014, filed a petition for a payment order at the Court of Milan against Pandette for the above amount. On 28 March 2014, the Court of Milan issued a provisionally enforceable payment order for the payment of euro 31.4 million to Banco Popolare, corresponding to the portion of the consideration relating to the sale of the RCS shares not challenged by Pandette.

In a notice served on 12 March 2014, Pandette summoned Banco Popolare to appear before the Civil Court of Milan, proposing (i) principally, a request for confirmation of the price for the transfer of the RCS shares relating to the Put Option to the extent of euro 31.4 million (ii) subordinately, a request for confirmation of the excessively high amount charged to Pandette for the transfer of the RCS shares (and, by effect of the same, Pandette submitted a request to cancel the Option Contract and the Sale Contract of the RCS shares) and (iii) further subordinately, a request for confirmation of Banco Popolare and Pandette's obligation to renegotiate the Option Contract and the Sale Contract of the RCS shares, namely a request to recalculate the economic content of said contracts, given Banco Popolare's refusal to collaborate.

As Banco served Pandette with the provisionally enforceable payment order together with the writ of execution announcing the enforceable proceedings for the recovery of the debt, Pandette submitted its opposition to the payment order, requesting preliminarily the suspension of the provisional enforcement and in this regard, resubmitting the requests contained in the summons. It also requested the opposition procedure to be combined with the merit procedure pending before the Civil court of Milan. Lastly, Pandette submitted a motion opposing the writ of execution substantially with the same rationale.

The calculation of the price of the RCS shares made by Banco Popolare and Pandette respectively, originates from a different contractual interpretation of the Option Contract, as partially amended by the Amendment Agreement.

In this regard, it is first worth noting that on 30 May 2013, the extraordinary shareholders' meeting of RCS Media Group S.p.A., after the elimination of the nominal value expressed, also resolved pursuant to article 2446 of the Italian Civil Code to proceed to fully cover the losses recorded as at 31 March 2013, corresponding to a total of euro 907,325,458.37 by using reserves of euro 284,141,272.95 and by reducing share capital from euro 762,019,050.00 to euro 139,250,009.00 to obtain the residual amount, with a reverse share split of 732,669,457 ordinary shares into 109,900,416 ordinary shares at a ratio of 3 new ordinary shares for every 20 ordinary shares.

According to Pandette, the reverse share split resolved by the shareholders' meeting of the RCS Media Group as 3 new ordinary shares for every 20 ordinary shares would integrate the case envisaged by the Agreement of reducing share capital by cancelling the number of shares, reducing the number of shares to be used for the Put Option and, by applying the same ratio (3 to 20) to the percentage reduction of the share capital, also reducing the transfer price of the RCS shares.

In Banco Popolare's opinion, the reduction of the share capital resolved by the extraordinary shareholders' meeting of RCS Media Group took place by means of a reduction of the nominal value of the shares, while maintaining the original number of the same, and applying a reverse share split ratio of 3 new ordinary shares to every 20 existing ordinary shares. More specifically, according to Banco Popolare, the reduction of the exercise price of the Put Option should be calculated on the basis of the fall in value of the Company's equity, related to the conventional value of the Shares, and

not to the nominal share capital, which was never taken into consideration when establishing the exercise price of the Put Option.

Based also on the opinion of its legal advisors, engaged to protect its interest, Banco Popolare believes that there is only a remote risk of losing the above-cited disputes, given that the methods used by Pandette to calculate the price are inconsistent and incoherent. In the light of this opinion and of the financial profile of the debtor, the receivable of euro 113.5 million has been considered as fully existent and recoverable.

The Court of Milan, dissolving the reservation made at the hearing on 18 July 2014 on the petition submitted by Pandette's defence counsel to suspend the enforceability of the payment order, decided to suspend the provisional enforcement of that ordered of Pandette for procedural reasons. The case was then postponed until 2 December 2014, when a ruling will be made by the ordinary court on the petition submitted by Pandette. As this ruling only regards the procedure of the proceedings and not the grounds of the petition, it has no negative or positive influence on the decision of the dispute, nor on the continuation of negotiations with Pandette, with a view to reaching a final settlement of the matter, incidentally solicited by the same Court.

Upper Tier II subordinated loan “Banca Caripe Euribor 6M + 0.50% 28/09/2006 – 28/09/2016”

On 14 March 2014, the Official Receiver of Banca Tercas S.p.A. in Extraordinary Receivership, Parent Company of the Tercas Banking Group and the company that controls Banca Caripe S.p.A., holding a stake of 89.20% in the share capital of the same informed Banco Popolare, underwriter of the subordinated bond loan issued by Caripe called Upper Tier II “Banca Caripe Euribor 6M + 0.50% 28/09/2006 – 28/09/2016” (the “Bond Loan”), of the suspension of the right of payment of the Bond Loan relating to the coupon currently becoming due (entitlement 28 September 2013 - 28 March 2014).

According to the Official Receiver of Tercas, the decision not to pay Banco Popolare the interest on the current coupon is due to the serious situation of the losses recorded by Caripe as at 31 December 2013 and to the confirmation of capital ratios that are below the minimum regulatory thresholds for the continuation of banking activity.

The subordinated bond loan with a nominal value of euro 80 million is recorded in the balance sheet under “Receivables due from banks”.

On 7 July 2014, having evaluated the suitability of the intervention to safeguard the interests of customers and those with deposits in Banca Tercas, resolved by the Board of the Interbank Deposit Guarantee Fund (“IDGF”) on 30 May 2014, the Bank of Italy issued the relative approval pursuant to art. 96 ter, letter d), of the Consolidated Banking Law (CBL). The intervention in question envisages the cash disbursement of the amount of euro 265 million to cover Banca Tercas' capital deficit. The estimated contribution resolved by the IDGF, which will be charged to the Banco Popolare Group, had already been deducted from the income statement in 2013 (euro 13.5 million), as illustrated on page 38 of the Annual Financial Report for 2013). The finalisation of the intervention of the IDGF and the related project to recover Banca Tercas, approved by the Commissioners and by the Supervisory Authority, lead us to retain that the subordinated financial asset can be recovered.

Change in substitute tax on the revaluation of the equity interest held in the Bank of Italy

On 23 June 2014, Law no. 89 converting Italian Decree Law no. 66/2014 (“spending review”) was approved, on the basis of which the substitute tax rate for the revaluation of the stake in the Bank of Italy was re-established as 26%, with respect to that of 12% established by Italian Law no. 147/2013 and taken as reference for financial year 2013 for the recognition of tax on income generated by the above-cited revaluation.

Based on the new legislative provisions, and on the income fully recognised in the previous year, the higher amount of euro 14.5 million had to be deducted from the income statement in the second quarter of 2014. For further details, please consult the paragraph entitled “Uncertainties with regard to the use of estimates for drawing up the interim report on operations”.

Change in IRAP rate

Article 2 of the cited Spending review decree (no. 66/2014) also established the permanent reduction of the IRAP rate effective from financial year 2014.

For banks and financial companies, the basic rate has been reduced from 4.65% to 4.20%. In the light of these changes, the effective rates have to be recalculated using an automatic procedure on the basis of which the regional change adopted with respect to the previous basic rate, is added to the new measures envisaged by the decree. By way of example, if under regional legislative provisions, a change in the basic rate of 0.92 percent had been adopted, the effective rate would be 5.12% (4.20 + 0.92%).

Even though the legislative change guarantees a reduction of the tax burden for direct taxation in the future, at the present time, it has had a significant negative impact due to the need to write down the receivables already recognised in the consolidated financial statements as deferred tax assets for IRAP. In the consolidated financial statements as at 31 December 2013, deferred tax assets for IRAP totalling euro 270.7 million were recorded, of which euro 9.2 million as a balancing entry in shareholders' equity. Instead, deferred tax liabilities for IRAP amounted to euro 65.2 million, of which euro 14.9 million as a balancing entry in shareholders' equity.

The adjustment of the assets and liabilities to the new rates therefore led to the deduction of an estimated extraordinary tax burden of euro 15.4 million from the income statement in the second quarter of 2014. The adjustment of deferred tax assets and of deferred tax liabilities with a direct impact on shareholders' equity is expected to have a positive impact of an estimated euro 0.4 million.

Agreements relating to employees

In 2014, negotiations launched in previous years continued. The purpose of the same is to take continuous action to cut operating expenses, also making use of levers to cut labour costs but adopting measures to defend employment and with a view to generational renewal.

The agreements signed since the beginning of the year, which are contributing to meeting the above objectives are illustrated below:

Agreements on 23 January 2014 - Solidarity Fund, New Network Distribution Model and Part Time Work

On 23 January several important trade union agreements were signed, in particular regarding the Solidarity Fund, the New Network Distribution Model and Part Time work.

The main issues covered were as follows:

- reduction of the workforce by 450 resources at Group level in 2014, through the retirement of all those who meet the requirements to receive an INPS pension by 31 December 2014 and the participation of up to a maximum of 400 resources, in the extraordinary provisions of the sector Solidarity Fund;
- hiring/stabilisation of employment of 110 resources, once the threshold of 450 personnel have left (net of turnover);
- use of the ordinary provisions of the Solidarity Fund to support employment. The actions in this regard will be defined in a subsequent stage of dialogue, also referring to the actions previously implemented in relation to Solidarity Days and Social Hour;
- extension of the agreement in force on Part Time Work up to 31 December 2015;
- definition of the categories of the professionals introduced by the New Network Model (Deputy Branch Manager, Private Banking Coordinators, Business Coordinators) and confirmation of the contractual provisions in place for positions that were not changed by the application of the New Model;
- planning, in an initial stage, of the fungible use of the personnel involved, in light of the complexity of the reorganisational processes of the New Network Model;
- defining of the agreement on secondary benefits of the Group pension fund for invalidity and death.

Trade Union agreements on funded training

In February and March, 2 trade union agreements were signed for the funding of the training activities set forth in Notice 2/2011 of the Insurance Bank Fund (IBF) (individual coaching sessions) and IBF Notice 2/2012 ("Enhancing the capital of experience" - so-called over 55).

Furthermore, on 28 May 2014, a trade union agreement was signed for the funding of the training activities set forth in Notice 1/2014 of the Insurance Bank Fund (IBF) "Improving skills to support growth" which will involve a minimum of 8,500 participants over 470 editions.

Supplementary welfare

The individual Welfare Account has been introduced, which will enable an individual worker to choose the destination of the "figurative" individual budget within a combination of Welfare services, summarised below:

- Supplementary pension arrangements
- Healthcare
- A.H. (Additional Healthcare)
- Instruction and Education.

In line with the agreement dated 23 January, a Group trade union agreement was signed to implement periods of suspension from work, which, more specifically, entailed taking 4 days of suspension from work between 1 September 2014 and 31 December 2015 (2 days in 2014 and 2 days in 2015), as well as the option, on a voluntary basis and during the same period of time, of taking further days of suspension up to a set limit, based on the different categories of activation.

As better illustrated in the section on significant events after the end of the quarter, the agreement signed on 29 October 2014 redefined the plan for suspension from work for 2015, which now specifically envisages 1 compulsory day of suspension from work for all Group company employees.

Trade Union agreements regarding the mergers by incorporation of Credito Bergamasco and Banca Italease into Banco Popolare

Following the agreements signed on 4 July 2014 regarding the merger of Credito Bergamasco and on 24 September 2014 regarding the merger of Banca Italease, the economic and legislative arrangements of the employees that worked in the incorporated companies were harmonised with those applied to Banco Popolare employees.

Agreement dated 31 July 2014 - Solidarity Fund, Rationalisation of the Network in Sicily and Rome

With regard to the objectives of the Business Plan and to the process of reorganisation of the commercial network for 2014, on 31 July 2014, an important agreement was reached with the Group's Trade Union Organisations for the retirement of 330 resources in 2015, of which at least 50 in Sicily and at least 50 in the Rome area, through access to pension funds or to the extraordinary provisions of the Solidarity Fund.

The above-mentioned agreement identified the motivated use of the extraordinary provisions of the Solidarity Fund and access to pension funds as the agreed tools to manage the situation in question.

The impact of the agreement, corresponding to euro 67.7 million, was booked to the income statement for the third quarter.

Other aspects

On 23 April, a Group contract for Video surveillance was signed, which has harmonised and extended the rules envisaged to regulate the use of video surveillance systems at the production units of Banco Popolare Group companies.

Furthermore, in May, a trade union agreement was signed confirming the application, also in 2014, of the tax break (so-called "detaxation") on productivity pay, within the new limits set by the relevant legislation in force.

Lastly, again in May, a Group agreement was signed relating to the application of provisions Guaranteeing Privacy as regards the traceability of banking operations.

Bond issues

On 6 March, Banco Popolare returned to the institutional market with the very successful placement of a 5-year senior bond issue as part of the EMTN programme for the figure of euro 1.25 billion. The bond, which has a fixed-rate coupon, has a final return corresponding to the mid-swap rate plus 255 basis points. The transaction was priced at the mid-swap rate +255 basis points due to the significant demand and to the numerous orders registered.

In May, Banco Popolare placed another senior bond issue with institutional investors, maturing in January 2018, as part of the EMTN programme for the figure of euro 750 million. The operation was priced at the mid swap rate of +192 basis points (against the initial spread of 195), given the market's particular appreciation of the same.

The funds collected from the above-cited issues will be used for current operations and to further strengthen Group liquidity.

Covered Bond transactions and securitisations

Under the Residential CB Programme, following the redemption of the Fifth Series of the CB issued, which expired on 31 December 2013, for a nominal value of euro 1.75 billion, on 8 January 2014, Banco Popolare issued the Seventh Series of CB for a nominal value of euro 1.5 billion, at a floating interest rate (3m Euribor + 100 bps) maturing on 31 March 2016. The bond was entirely subscribed by Banco Popolare and used as collateral in refinancing operations with the ECB. On 31 March 2014, the Third Series of CB issued was fully redeemed for a nominal value of euro 1.25 billion. On 19 September 2014, Banco Popolare issued the Eighth Series of CB for a notional amount of euro 1.5 billion, at a floating interest rate (3m Euribor + 100 bps) maturing on 30 September 2017. The bond was entirely subscribed by Banco Popolare and used as collateral in monetary policy operations. Under this Programme, the bonds issued by Banco Popolare and outstanding as at 30 September 2014 therefore amount to euro 7.45 billion (the securities are listed on the Luxembourg Stock Exchange, rating assigned by Fitch "BBB+", while the Moody's rating is "A3").

On 21 May 2014, Banco Popolare and Credito Bergamasco ("Assigning Banks") sold a new portfolio of suitable assets (the ninth) to the SPE BP Covered Bond S.r.l. with a residual debt of euro 866.3 million, comprised of residential and property mortgage loans originated by the Assigning Banks. To honour the purchase price of the loans portfolio, made on the Guarantor Payment Date of 30 June 2014, the SPE utilised available liquidity deposited in its current accounts at the London Branch of Banco Popolare. Following the latter assignment, the total residual value of the receivables sold to the Special Purpose Vehicle was euro 10.4 billion as at 30 September 2014.

Under the Commercial CB Programme, following the full redemption of the First and the Second Series of the CB issued, which expired on 31 March 2014, for a total nominal value of euro 1.7 billion, on 4 April 2014, Banco Popolare issued the Fourth Series of CB for a nominal value of euro 1.5 billion, at a floating interest rate (3m Euribor + 30 bps) maturing on 2 July 2016. Therefore, the bonds issued by Banco Popolare under this programme and outstanding as at 30 September 2014 amount to euro 1.7 billion (the securities are listed on the Luxembourg Stock Exchange, rating assigned by Moody's "Baa2", subscribed by Banco Popolare and used as collateral for refinancing operations with the ECB). The total residual value of the receivables sold to the Special Purpose Entity was around euro 2.3 billion as at 30 September 2014.

On 21 February 2014, the rating agency Moody's, mainly due to the change in the rating for the outlook of Italian Government bonds from "negative" to "stable", upgraded the rating attributed to the CB issued under the Residential Programme from "Baa2" to "Baa1" and that attributed to the CB issued under the Commercial CB Programme from "Baa3" to "Baa2"; furthermore, on 12 March 2014, following several changes to the rating method adopted, Moody's

further upgraded the rating of the Residential CB Programme from “Baa1” to “A3”.

Instead, with regard to securitisation transactions, on 27 May 2014, Banco Popolare and Credito Bergamasco (“Originator Banks”) sold a new portfolio of receivables resulting from mortgage, landed, agrarian and other loans disbursed to SMEs (Small Business Enterprises) to the SPE BPL Mortgages S.r.l., with a total residual debt of around euro 1.8 billion (“BPL Mortgages 7”). To fund the purchase of the receivables, on 30 June 2014, the SPE issued three classes of Asset Backed notes with limited recourse: a class of Senior Notes for a total nominal value of euro 1.077 billion, listed on the Irish Stock Exchange, (rated “A2” by Moody’s and “A” by DBRS), a class of Mezzanine Notes for a total nominal value of euro 269.3 million, listed on the Irish Stock Exchange, (rated “Baa2” by Moody’s and “BBB-” by DBRS), and a class of unrated, unlisted Junior Notes for a total nominal value of around euro 448.9 million. All of the classes of notes were underwritten by Banco Popolare. Note that in August 2014, the Senior Notes were classified as allocatable and were used by Banco Popolare for refinancing operations with the European Central Bank.

During the period, the ratings of the Senior Notes of the securitisation transactions BPV Mortgages and BP Mortgages - 1 were downgraded. More specifically, the rating of the Senior Note (Class C Notes) of the “BP Mortgages 2007-1” operation was downgraded from “BBB+” to “BBB” by Fitch and the Senior Note (Class A Notes) of the “BPV Mortgages” operation was downgraded from “A” to “BBB” by S&P.

Following the downgrading of Banco Popolare in the previous year by Moody’s, in June and July 2014, with a view to maintaining the rating of the notes issued, several changes were made to the contractual documentation of the “BPL Mortgages 5”, “BPL Mortgages 6” and “Bipitalia Residential”, “BP Mortgages 2007-1” and “BP Mortgages 2007-2” operations, agreed with the relative rating agencies and with the noteholder representatives.

As regards the securitisation operation “Bipitalia Residential”, in July 2014, the minimum rating contractually required by the counter party Deutsche Bank to act as Transaction Account Bank was not reached. Discussions are underway with the counter parties to the operation (including the Bondholder Representative and the rating agencies) to assess and establish the best action to take.

Group ratings

In the first nine months of 2014, the rating agencies changed the ratings of Banco Popolare as illustrated below.

Moody’s Investors Service, following the announcement of the euro 1.5 billion share capital increase, on 31 January 2014, Moody’s Investors Service upgraded the Outlook on all of Banco Popolare’s ratings from negative to positive, at the same time confirming the long-term rating of Ba3 and the short-term rating of NP. Subsequently, on 29 May 2014, the same agency, as part of a systematic rating action at European level, based on its own assessment of the new model to resolve banking crises, downgraded the Outlook on Banco Popolare’s long-term rating from positive to negative. The Outlook on the standalone rating continues to be positive (in this context, the rating agency refers to multiple Outlooks).

Fitch Ratings, on 19 May 2014, confirmed Banco Popolare’s long and short term ratings as BBB with a negative Outlook and F3 respectively, but at the same time upgraded the Viability Rating from bbb- to bb+.

The table below provides a brief comparison of the Group’s long and short term ratings as at 30 September 2014 with those as at 31 December 2013.

Rating agency	Type of Rating	Rating as at 30/09/2014	Rating as at 31/12/2013
Fitch Ratings	Long term (IDR)	BBB (Negative outlook)	BBB (Negative outlook)
	Short term (IDR)	F3	F3
Moody’s Investors Service	Long term	Ba3 (Negative outlook)	Ba3 (Negative outlook)
	Short term	NP	NP

Note that on 18 August 2014, following an official request issued to the market on 8 August, Standard & Poor’s withdrew the ratings assigned to Banco Popolare and to the subsidiary Banca Aletti. At the time of the withdrawal, Banco Popolare and Banca Aletti’s long and short term ratings had been confirmed as BB-/B, with a Negative outlook. The ratings of the subsidiary company Credito Bergamasco (BB-/B with a Negative outlook) had already been cancelled by Standard & Poor’s on 17 June, following the merger of the same into the parent company Banco Popolare.

Rejection of refund of tax credit

On 22 July 2014, Banco Popolare was notified - by the Tax Authority - Provincial Headquarters of Novara - with 2 refund rejection notices regarding IRPEG and ILOR credit for which Banca Popolare di Novara s.c.a.r.l. had requested a refund

for 1995, prior to the merger with Banca Popolare di Verona - SGSP s.c.a.r.l. which established Banco Popolare di Verona e Novara s.c.a.r.l. The credit rejected, recognised in the financial statements as at 30 September 2014 amounts to a total of euro 86.5 million, euro 52.6 million of which as principal and euro 33.9 million of which is interest accrued. On 5 November, the Company submitted an appeal against the refund rejection notices within the terms of the law before the competent Tax Commission, as it retains that the grounds stated by the Tax Authority are totally illegitimate and groundless.

Exposure to the Sorgenia Group

At the end of 2013, the Sorgenia Group announced to the group of banks that the market scenario had changed and that it was undergoing a situation of financial tension which meant that it was in difficulty in repaying its debts. In December 2013, Sorgenia informed the lending banks that it was drawing up a business and financial plan, with the help of its advisors, one of the aims of which was to identify ways of recapitalising and improving its economic and financial situation. The main features of the Plan, which is part of a Debt Restructuring Agreement pursuant to art. 182 bis of the Finance Law, are as follows:

- liberation from unpaid debts by the banks for a total of around euro 600 million (Banco Popolare's share of which corresponds to around 11.6%), of which around euro 400 million by means of the assignment, without recourse of a part of the MLT receivables held by several banks against Sorgenia S.p.A. to a "Holdco" held by the banks in question, while the remainder through the conversion, by the group of banks, of medium-long term receivables into a 10-year convertible bond (as well as an option to further extend the deadline by 2 years);
- the postponement of the payment deadline to 2023 (in addition to an option of a further 2 years extension of the deadline) of the residual medium-long term debt of Sorgenia S.p.A., net of the amount of euro 600 million subject to conversion, corresponding to a total of euro 241 million;
- confirmation of the short-term credit lines for a total of around euro 344 million;
- disbursement of a new loan during the Plan for a total of euro 256 million;
- the postponement of the payment of debts due to SPE Sorgenia Power (2025 + an option of a further 2 year's extension) and to Sorgenia Puglia (2021 + an option of a further 1 year's extension), as well as below market level pricing.

Banco Popolare's exposure to the companies covered by the restructuring arrangement (namely, Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A.) which as at 30 September 2014 totalled euro 162.7 million, euro 136.1 million of which in cash, euro 25.9 in unsecured loans and euro 0.7 million in derivatives. The above exposures in cash and unsecured loans have been classified as non-performing restructured loans with total provisions of euro 32.4 million. The exposure relating to the liberation arrangement is that of Sorgenia S.p.A., amounting to euro 123.3 million as at 30 September 2014, euro 97.4 million of which relate to two medium-long term pool loans and euro 25.9 million to unsecured loans. The exposure to the other two companies, with total cash drawdowns of euro 39.4 million (euro 0.7 million in derivatives), instead regard the participation in two pool project financial arrangement to sustain part of the investment costs of two projects to construct thermoelectric power stations.

By virtue of the commitment to disburse new financial resources, the exposure in unsecured loans had already risen from euro 22 to 25.9 million at the end of July 2014 and the disbursement of further credit lines of euro 23 million is envisaged.

The restructuring operation, with specific reference to the equity investment in Sorgenia S.p.A. or in the Holdco following the liberation arrangement, should be finalised by the end of 2014.

Bank of Italy authorisation for the use of the internal model to calculate the capital requirement for operating risk

In a notice dated 5 August 2014, the Bank of Italy informed Banco Popolare of its authorisation for the use of the internal model to calculate the capital requirement for operating risk (Advanced Measurement Approach - AMA).

Banco Popolare had submitted a formal request in April, accompanied by an implementation plan, in which the use of AMA methods is initially envisaged for the Parent Company and the subsidiaries Credito Bergamasco, Banca Aletti, SGS BP and BP Property Management, to be later extended to Aletti Gestielle SGR and to Banca Italease, on the basis of a gradual programme of application, which is envisaged to be completed by December 2015.

The authorisation has been given for individual and consolidated reporting related to 30 June 2014.

Change in corporate offices

The Shareholders' Meeting held on 29 March, among other resolutions, appointed the members of the Board of Directors, including the Chairman and the Deputy Chairmen, who will remain in office for the three-year period 2014-2016. The following were elected: Carlo Fratta Pasini (Chairman), Guido Castellotti (Deputy Chairman), Maurizio Comoli (Deputy Chairman), Patrizia Codecasa, Giovanni Francesco Curioni, Gianni Filippa, Andrea Guidi, Maurizio Marino, Giulio Pedrollo, Enrico Perotti, Claudio Rangoni Machiavelli, Fabio Ravanelli, Cecilia Rossignoli, Sandro Veronesi, Franco Zanetta, Cristina Zucchetti, Pier Francesco Saviotti, Maurizio Faroni, Domenico De Angelis, Enrico Fusi, Cristina Galeotti, Valter Lazzari, Daniela Montemerlo and Tommaso Zanini.

The members of the Board of Statutory Auditors were also appointed: Pietro Manzonetto (Chairman), Maurizio Calderini, Gabriele Camillo Erba, Claudia Rossi, Alfonso Sonato and, as alternate auditors, Marco Bronzato and Paola Pesci.

At the meeting held on 1 April 2014, the Board of Directors confirmed Pier Francesco Saviotti as Managing Director and appointed the members of the Executive Committee, the Internal Control and Risks Committee, the Emoluments Committee and the Appointments Committee.

It also acknowledged the resignation of Board Director Giovanni Francesco Curioni. On 29 April, to make up its quorum, the Board of Directors co-opted Luigi Corsi, who will remain in office until the next Shareholders' Meeting.

Note also that on 11 June, board director Enrico Fusi resigned; at a meeting held on 24 June, the Board of Directors resolved to co-opt Cesare Zonca, who will remain in office until the next Shareholders' Meeting.

In compliance with the provision of the Articles of Association, which came into force on 1 June 2014, raising the number of Executive Committee members from 6 to 7, at the same meeting, board director Zonca was appointed a member of said Committee.

RESULTS

Introduction

The balance sheet and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide clear indications on the trend of the Group's general performance based on the economic-financial data that can be determined rapidly and easily.

The reclassification criteria for income statements are unchanged with respect to those applied as at 31 December 2013; however, several restatements of data relating to previous periods were necessary in order to guarantee a like-for-like comparison.

In particular, the consolidated income statement referring to the corresponding period of the previous year has been reclassified to retroactively reflect the transfer of the economic contribution of the assets sold and held for disposal, in accordance with IFRS 5, to the item "Income/loss after tax from discontinued operations". These assets refer to the subsidiary company Banco Popolare Croatia, classified under discontinued operations as of 31 December 2013, insofar as the same was sold in April.

The attachments to this document contain a statement of reconciliation between the reclassified income statement published in the interim report on operations as at 30 September 2013 and the same restated for comparative purposes, contained in this report.

Disclosures on the business combinations and the reclassifications made to the financial statements envisaged by Circular no. 262/05, in compliance with the requirements of Consob as per communication no. 6064293 dated 28 July 2006 are shown below:

- dividends on shares classified under financial assets available for sale and assets held for trading (item 70) have been reclassified under the net financial result;
- the profits and losses on the disposal of loans, not represented by debt securities, (included in item 100) have been grouped, together with net losses/recoveries on impairment of loans, under item "Net adjustments on loans to customers";
- the profits and losses on the disposal of financial assets available for sale, receivables represented by debt securities and financial liabilities (recognised under item 100) have been stated under the net financial result. This last aggregate also includes adjustments due to impairment on debt securities classified in the loans portfolio, which in the financial statements are shown under item 130;
- recoveries on taxes and other costs (included in item 220) have been booked directly against administrative expenses, where the relative cost has been recognised, rather than being indicated in the reclassified aggregate "other net operating income";
- the amortisation of leasehold improvement costs (recorded in item 220) has been stated together with value adjustments on property and equipment and intangible assets, rather than stated together with other net operating income;
- the portion of the economic results pertaining to investee companies carried at equity (included in item 240) has been stated in a specific item which represents, together with the interest margin, the aggregate defined as the financial margin;
- the aggregate "Losses/recoveries on investments in associates and companies subject to joint control and goodwill" includes all adjustments relating to goodwill and to investments in associates and companies

subject to joint control made following impairment testing;

- the impact of the change in creditworthiness on financial liabilities issued by the Bank, designated at fair value (FVO), recorded under item 110, is shown as a separate item in the reclassified income statement, together with the relative tax (recognised in item 290 of the income statement).

Reclassified consolidated income statement

Reclassified income statement items <i>(in thousands of euro)</i>	30/09/2014	30/09/2013 (*)	Change
Interest margin	1,167,281	1,256,783	(7.1%)
Income (loss) from investments in associates carried at equity	65,102	(34,312)	
Financial margin	1,232,383	1,222,471	0.8%
Net fee and commission income	1,074,954	1,067,714	0.7%
Other net operating income	112,588	136,982	(17.8%)
Net financial result (without FVO)	217,773	267,925	(18.7%)
Other operating income	1,405,315	1,472,621	(4.6%)
Operating income	2,637,698	2,695,092	(2.1%)
Personnel expenses	(1,056,236)	(1,030,580)	2.5%
Other administrative expenses	(509,564)	(530,092)	(3.9%)
Net value adjustments on property and equipment and intangible assets	(105,060)	(95,925)	9.5%
Operating expenses	(1,670,860)	(1,656,597)	0.9%
Income (loss) from operations	966,838	1,038,495	(6.9%)
Net adjustments on loans to customers	(1,065,359)	(684,581)	55.6%
Net adjustments on receivables due from banks and other assets	(20,500)	(66,486)	(69.2%)
Net provisions for risks and charges	11,173	1,699	557.6%
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	-	95,496	
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	2,138	(709)	
Income (loss) before tax from continuing operations	(105,710)	383,914	
Taxes on income from continuing operations	(2,265)	(182,205)	(98.8%)
Income (loss) after tax from discontinued operations	(48)	(3,473)	(98.6%)
Income (loss) attributable to minority interests	8,686	(11,130)	
Income (loss) for the period without FVO	(99,337)	187,106	
Change in the Bank's creditworthiness (FVO)	(33,720)	(32,427)	4.0%
Taxes on the change in creditworthiness (FVO)	11,311	10,724	5.5%
FVO Impact	(22,409)	(21,703)	3.3%
Parent Company's net income (loss)	(121,746)	165,403	

(*) The figures relating to the previous period have been restated to provide a like-for-like comparison.

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items <i>(in thousands of euro)</i>	FY 2014			FY 2013			
	Q3	Q2	Q1	Q4	Q3 (*)	Q2 (*)	Q1 (*)
Interest margin	396,556	398,180	372,545	390,199	423,103	428,800	404,880
Income (loss) from investments in associates carried at equity	24,900	20,844	19,358	6,909	(5,825)	(33,113)	4,626
Financial margin	421,456	419,024	391,903	397,108	417,278	395,687	409,506
Net fee and commission income	356,008	347,270	371,676	319,348	324,481	377,996	365,237
Other net operating income	38,504	33,452	40,632	52,202	36,381	47,976	52,625
Net financial result (without FVO)	23,794	105,604	88,375	120,819	96,691	94,545	76,689
Other operating income	418,306	486,326	500,683	492,369	457,553	520,517	494,551
Operating income	839,762	905,350	892,586	889,477	874,831	916,204	904,057
Personnel expenses	(381,999)	(330,004)	(344,233)	(416,155)	(345,066)	(337,811)	(347,703)
Other administrative expenses	(170,855)	(176,974)	(161,735)	(137,015)	(173,049)	(177,875)	(179,168)
Net value adjustments on property and equipment and intangible assets	(31,043)	(25,252)	(48,765)	(44,073)	(33,710)	(30,742)	(31,473)
Operating expenses	(583,897)	(532,230)	(554,733)	(597,243)	(551,825)	(546,428)	(558,344)
Income (loss) from operations	255,865	373,120	337,853	292,234	323,006	369,776	345,713
Net adjustments on loans to customers	(445,323)	(292,049)	(327,987)	(1,006,837)	(246,302)	(209,430)	(228,849)
Net adjustments on receivables due from banks and other assets	(8,413)	(8,606)	(3,481)	(94,978)	(6,665)	(54,074)	(5,747)
Net provisions for risks and charges	2,729	9,937	(1,493)	(123,130)	5,599	(4,840)	940
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	-	-	-	(250)	-	95,496	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	965	206	967	5,498	(491)	(357)	139
Income (loss) before tax from continuing operations	(194,177)	82,608	5,859	(927,463)	75,147	196,571	112,196
Taxes on income from continuing operations	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	4,632	3,382	672	24,879	441	(3,536)	(8,035)
Income (loss) for the period without FVO	(130,069)	29,573	1,159	(697,588)	31,390	114,991	40,725
Change in the Bank's creditworthiness (FVO)	3,427	(7,096)	(30,051)	(110,727)	(33,071)	(75,801)	76,445
Taxes on the change in creditworthiness (FVO)	(1,118)	2,491	9,938	36,617	10,937	25,067	(25,280)
FVO Impact	2,309	(4,605)	(20,113)	(74,110)	(22,134)	(50,734)	51,165
Parent Company's net income (loss)	(127,760)	24,968	(18,954)	(771,698)	9,256	64,257	91,890

(*) The figures relating to previous periods have been restated to provide a like-for-like comparison.

Note that, in accordance with that envisaged by the reference international accounting standard (IFRS 3), the Banco Popolare Group's income statement includes the economic impacts deriving from the allocation of the cost of the business combination transactions (so-called Purchase Price Allocation – PPA) which took place in 2007 (merger with the Banca Popolare Italiana Group as of 1 July 2007) and 2009 (acquisition of control of the Group to which Banca Italease belongs as of 1 July 2009).

The following schedules show the impact of the above-cited business combination transactions on the income statements for the first nine months of 2014 and 2013. The tables clearly show the contribution to the consolidated income statement of both the part relating to the former Italease Group, which substantially represents “run off” assets, and that relating to Banco Popolare as a “stand alone”.

The economic impact on the interest margin is attributable to the higher and lower value respectively recognised at the time of PPA for receivables as regards Banco Popolare Stand Alone and for the financial liabilities issued by Banca Italease.

The economic impact on other net operating income and on value adjustments to property and equipment and intangible assets for Banco Popolare Stand Alone regards the amortisation charges for intangible assets with a definite useful life recognised at the time of PPA and the depreciation charge on the greater value of the properties acquired as part of the business combination.

Contribution to the Income Statement of Banco Popolare “stand alone” and of the former Italease Group

<i>(in thousands of euro)</i>	30 September 2014						
	Official Financial Statements	Banco Popolare without PPA	PPA BPI	Contribution of Banco Popolare	Banca Italease without PPA	PPA Italease	Contribution of Italease
INTEREST MARGIN	1,167,281	1,137,786	678	1,138,464	31,367	(2,550)	28,817
Dividends and profit/loss from investments in associates carried at equity	65,102	65,332		65,332	(230)		(230)
FINANCIAL MARGIN	1,232,383	1,203,118	678	1,203,796	31,137	(2,550)	28,587
Net fee and commission income	1,074,954	1,075,472		1,075,472	(518)		(518)
Other net operating income/expense	112,588	118,690	(22,317)	96,373	16,215		16,215
Net financial result (without FVO)	217,773	218,160		218,160	(387)		(387)
OTHER OPERATING INCOME	1,405,315	1,412,322	(22,317)	1,390,005	15,310	-	15,310
OPERATING INCOME	2,637,698	2,615,440	(21,639)	2,593,801	46,447	(2,550)	43,897
Personnel expenses	(1,056,236)	(1,046,484)		(1,046,484)	(9,752)		(9,752)
Other administrative expenses net of recoveries	(509,564)	(473,350)		(473,350)	(36,214)		(36,214)
Value adjustments on property and equipment and intangible assets	(105,060)	(81,380)	(2,762)	(84,142)	(20,918)		(20,918)
OPERATING EXPENSES	(1,670,860)	(1,601,214)	(2,762)	(1,603,976)	(66,884)	-	(66,884)
INCOME (LOSS) FROM OPERATIONS	966,838	1,014,226	(24,401)	989,825	(20,437)	(2,550)	(22,987)
Net adjustments on loans (customers)	(1,065,359)	(974,238)		(974,238)	(91,121)		(91,121)
Net value adjustments on other assets	(20,500)	(20,676)		(20,676)	176		176
Provisions for risks and charges	11,173	7,156		7,156	4,017		4,017
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	2,138	2,740	(44)	2,696	(558)		(558)
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	(105,710)	29,208	(24,445)	4,763	(107,923)	(2,550)	(110,473)
Taxes on income from continuing operations	(2,265)	(41,782)	9,692	(32,090)	28,949	876	29,825
Income (Loss) after tax from discontinued operations	(48)	(48)		(48)	-		-
Income (Loss) attributable to minority interests	8,686	(138)	-	(138)	8,824	-	8,824
NET RESULT WITHOUT FVO	(99,337)	(12,760)	(14,753)	(27,513)	(70,150)	(1,674)	(71,824)
Change in the Bank's creditworthiness (FVO)	(33,720)	(33,720)		(33,720)	-		-
Taxes on the change in creditworthiness (FVO)	11,311	11,311		11,311	-		-
FVO IMPACT	(22,409)	(22,409)	-	(22,409)	-	-	-
NET INCOME (LOSS)	(121,746)	(35,169)	(14,753)	(49,922)	(70,150)	(1,674)	(71,824)

<i>(in thousands of euro)</i>	30 September 2013 (*)						
	Official Financial Statements	Banco Popolare without PPA	PPA BPI	Contribution of Banco Popolare	Banca Italease without PPA	PPA Italease	Contribution of Italease
INTEREST MARGIN	1,256,783	1,223,645	2,922	1,226,567	33,493	(3,277)	30,216
Dividends and profit/loss from investments in associates carried at equity	(34,312)	(29,729)		(29,729)	(4,583)		(4,583)
FINANCIAL MARGIN	1,222,471	1,193,916	2,922	1,196,838	28,910	(3,277)	25,633
Net fee and commission income	1,067,714	1,065,171		1,065,171	2,543		2,543
Other net operating income/expense	136,982	143,635	(24,209)	119,426	17,556		17,556
Net financial result (without FVO)	267,925	273,354		273,354	(5,429)		(5,429)
OTHER OPERATING INCOME	1,472,621	1,482,160	(24,209)	1,457,951	14,670	-	14,670
OPERATING INCOME	2,695,092	2,676,076	(21,287)	2,654,789	43,580	(3,277)	40,303
Personnel expenses	(1,030,580)	(1,020,296)		(1,020,296)	(10,284)		(10,284)
Other administrative expenses net of recoveries	(530,092)	(494,506)		(494,506)	(35,586)		(35,586)
Value adjustments on property and equipment and intangible assets	(95,925)	(81,610)	(2,707)	(84,317)	(11,608)		(11,608)
OPERATING EXPENSES	(1,656,597)	(1,596,412)	(2,707)	(1,599,119)	(57,478)	-	(57,478)
INCOME (LOSS) FROM OPERATIONS	1,038,495	1,079,664	(23,994)	1,055,670	(13,898)	(3,277)	(17,175)
Net adjustments on loans (customers)	(684,581)	(629,262)		(629,262)	(55,319)		(55,319)
Net value adjustments on other assets	(66,486)	(66,493)		(66,493)	7		7
Provisions for risks and charges	1,699	1,276		1,276	423		423
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	95,496	95,496	-	95,496	-		-
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	(709)	557	(74)	483	(1,192)		(1,192)
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	383,914	481,238	(24,068)	457,170	(69,979)	(3,277)	(73,256)
Taxes on income from continuing operations	(182,205)	(208,067)	7,843	(200,224)	16,935	1,084	18,019
Income (Loss) after tax from discontinued operations	(3,473)	(3,473)		(3,473)	-		-
Income (Loss) attributable to minority interests	(11,130)	(14,284)	9	(14,275)	3,131	14	3,145
NET RESULT WITHOUT FVO	187,106	255,414	(16,216)	239,198	(49,913)	(2,179)	(52,092)
Change in the Bank's creditworthiness (FVO)	(32,427)	(32,427)		(32,427)	-		-
Taxes on the change in creditworthiness (FVO)	10,724	10,724		10,724	-		-
FVO IMPACT	(21,703)	(21,703)	-	(21,703)	-	-	-
NET INCOME (LOSS)	165,403	233,711	(16,216)	217,495	(49,913)	(2,179)	(52,092)

(*) The figures relating to the previous period have been restated to provide a like-for-like comparison.

In compliance with the instructions contained in Consob Communication no. DEM/6064293 of 28 July 2006, the following paragraphs provide information on the effects that non-recurrent events or transactions had on the consolidated economic result of the periods compared.

For the purposes of identifying the non-recurrent components, the following approaches are used on the whole:

- the results of disposal transactions relating to all fixed assets (investments in associates and companies subject to joint control, property and equipment) are considered to be non-recurrent;
- gains and losses on non-current assets held for sale and discontinued operations are considered to be non-recurrent;
- the income statement components associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives) are considered to be non-recurrent;
- income statement components for a significant amount which are not destined to reoccur frequently (e.g. fines, impairments of fixed assets, effects associated with legislative changes, exceptional results, etc.) are considered to be non-recurrent;

- impacts on the income statement, as long as significant, resulting from valuation aspects and/or changes in parameters in the application of the valuation methods applied on an on-going basis are instead considered to be recurrent.

In the light of the above criteria, in addition to the amounts already included in items that are per se non-recurrent (e.g. profit (loss) on assets held for sale), the result for the first nine months of 2014 was penalised by the impact deriving from the change in the book value of the financial liabilities issued by the Group, measured at fair value, due to the improvement of its creditworthiness compared to the end of the previous year (euro -33.7 million before tax). In the corresponding period of 2013, taking into account the impact of buy-backs of Tier 1 and Tier 2 securities, the income statement for the period recorded a negative impact of euro 32.4 million before tax.

The income statement as at 30 September 2014 was also influenced by further non recurring components as follows:

- the recognition of value adjustments on property and equipment of euro 17.6 million, gross, due to several properties being classified as investments in order to bring their book value in line with the recoverable value estimated on the basis of the most recent appraisals. Again, with regard to value adjustments on property and equipment and intangible assets, the income statement benefited from lower amortisation of around euro 6.7 million relating to the longer useful life of applications software to align the same better to the actual time the assets are used for;
- the recognition under “personnel expenses” of the extraordinary cost (euro 67.6 million) resulting from the agreement reached at the end of July 2014 with the Trade Union organisations regarding the retirement of 330 resources in 2015, partially offset by the fall in variable pay and of other provisions (euro 30.9 million) at the time of preparation of last year’s financial statements;
- the recognition of out-of-period income under “other administrative expenses” generated by the non-existence of several debts amounting to euro 7 million before tax;
- the adjustment of tax assets and liabilities to the new rates envisaged by Italian Decree Law no. 66/2014 (known as the “spending review”), article 2 of which envisages the reduction of the IRAP tax rate, for banks and financial companies, from 4.65% to 4.20%. This change resulted in the deduction from the income statement item tax on income from current operations of an extraordinary expense of euro 15.4 million;
- the adjustment of the tax recognised on the capital gains recorded by the Group last year following the operation to change the stakes held in the share capital of the Bank of Italy, as envisaged by the cited Italian Decree Law 66/2014, which set the rate of substitute tax on the revaluation of the equity investment as 26%, compared with the rate initially established by Italian Law 147/2013 (so-called “stability law”). This higher amount of tax resulted in the deduction from the income statement item tax on income from current operations of an extraordinary expense of euro 14.5 million.

Instead, the income statement for the first nine months of last year had been influenced, in addition to the impact illustrated previously regarding the change in creditworthiness, also by the impact on the net financial result resulting from the buy-back of Tier 1 and Tier 2 bonds issued by the Group, of euro 37.6 million, as well as by a gain of euro 31.3 million relating to the sale of the equity investment in Azimut Holding S.p.A., classified in the assets available for sale portfolio.

Instead, “personnel expenses” included an extraordinary cost of euro 41.9 million resulting from the agreement reached with the Trade Unions on the retirement of 250 employees through the use of provisions of the Solidarity Fund; this expense was fully offset by specific measures to contain the variable pay of employees, totalling euro 42.3 million. As at 30 September 2013, extraordinary value adjustments for the impairment of financial assets available for sale of euro 41.5 million had been recorded, mostly related to investments in private equity funds and in similar investment vehicles.

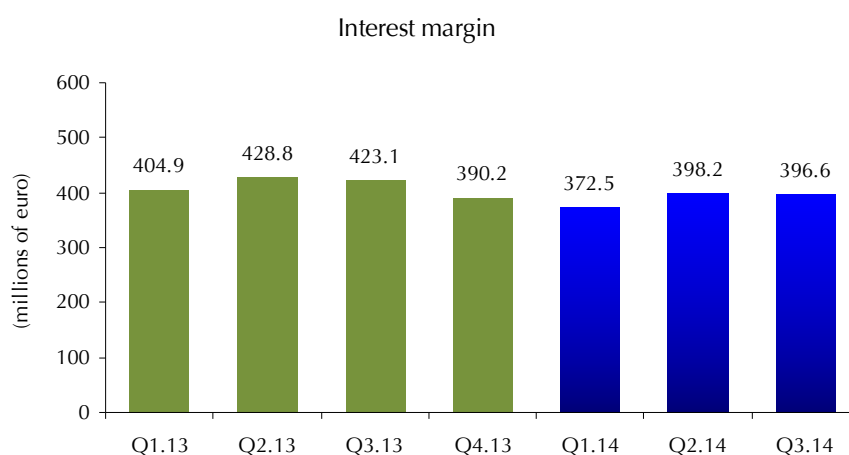
Lastly, the income statement for the first nine months of 2013 had benefited from the recognition of net value recoveries of euro 95.5 million on equity investments in associated companies (which included the value recovery on Agos Ducato of euro 105.8 million, partially offset by the adjustment of euro 10.3 million made on Finoa).

The main income statement items as at 30 September 2014 are illustrated below, compared with the figures for the corresponding period of the previous year.

Operating income

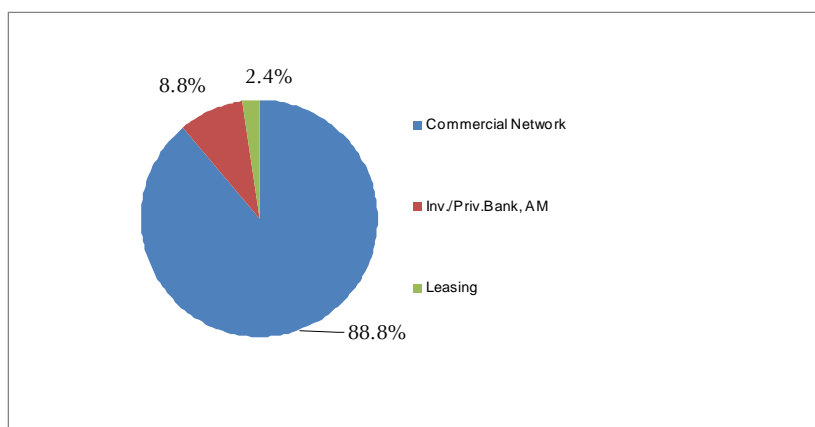
Interest margin

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Financial assets held for trading	175,824	248,385	(72,561)	(29.2%)
Financial assets available for sale	290,742	283,806	6,936	2.4%
Investments held to maturity	95,157	61,963	33,194	53.6%
Net interest due to banks	(47,977)	(82,114)	(34,137)	(41.6%)
Net interest due to customers	1,620,968	1,744,900	(123,932)	(7.1%)
Hedging derivatives (net balance)	51,371	93,062	(41,691)	(44.8%)
Net interest on other assets/liabilities	2,154	6,016	(3,862)	(64.2%)
Debt securities issued	(536,171)	(579,968)	(43,797)	(7.6%)
Financial liabilities held for trading	(3,334)	(237)	3,097	not significant
Financial liabilities designated at fair value through profit and loss	(481,453)	(519,030)	(37,577)	(7.2%)
Total	1,167,281	1,256,783	(89,502)	(7.1%)



The **interest margin** amounted to euro 1,167.3 million, down 7.1% on the corresponding period of the previous year (euro 1,256.8 million), due to the fall in average loans and a slight fall in the customer spread. The contribution of the third quarter of 2014 was euro 396.6 million, substantially in line with the euro 398.2 million recorded in the second quarter, up 6.5% compared to the euro 372.5 million recorded in the first quarter despite a fall in the customer spread of 7 b.p., due to the fall in the mark-up on loans, following competitive pressure, and to the fall in the mark-down on funding, linked to the fall in the Euribor interest rates for the quarter.

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Commercial Network	1,181,615	1,232,102	(50,487)	(4.1%)
Investment Banking, Private Banking, Asset Management	117,762	84,956	32,806	38.6%
Leasing	31,367	33,493	(2,126)	(6.3%)
Total business areas	1,330,744	1,350,551	(19,807)	(1.5%)
Corporate Centre and Other	(161,591)	(93,413)	(68,178)	(73.0%)
PPA	(1,872)	(355)	(1,517)	(427.3%)
Total interest margin	1,167,281	1,256,783	(89,502)	(7.1%)



The Commercial Network, which represents around 90% of the item's results, reported net interest down by 4.1%. The Commercial Network made a lower contribution to the interest margin in the first nine months of 2014 compared to that of the corresponding period of the previous year by virtue of the fall in the average volume of loans and the decrease of the average customer spread.

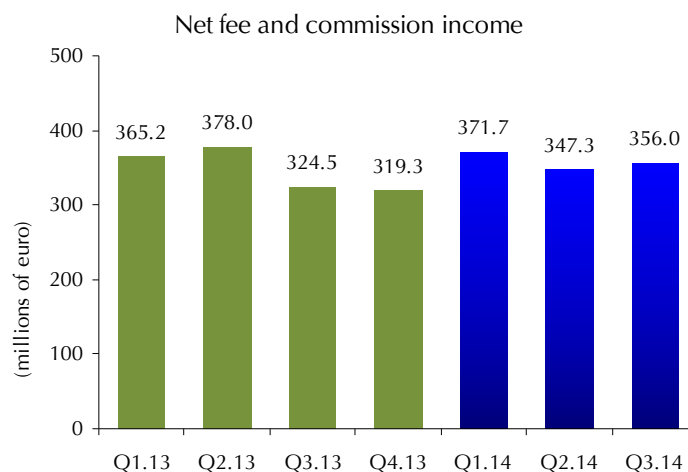
The interest margin of Investment Banking and Asset Management rose against the corresponding period of the previous year, due to the higher contribution of interest resulting from the larger securities portfolio held by the subsidiary Banca Aletti, where the liquidity received by the company for the issue of certificates is invested. The overall fall in interest rates reduced the flow of interest into the Parent Company's securities portfolio, leading to a deterioration in the interest margin of the Corporate Centre compared to the same period of 2013.

Income (loss) from investments in associates carried at equity

Income (loss) from investments in associates carried at equity amounted to euro 65.1 million, compared to euro -34.3 million recorded in the corresponding period of the previous year (euro +24.9 million in the third quarter of 2014). The positive contribution to the result for the first nine months of 2014 is mainly due to the equity investments held in Popolare Vita (euro +31.2 million against euro 22.1 million as at 30 September 2013), Agos Ducato (euro +24.9 million, while a negative contribution of 54.3 million was recorded in the first nine months of 2013), Avipop Assicurazioni (euro +8 million against euro 4 million in the corresponding period of the previous year), and lastly Energreen (euro 1 million as at 30 September 2014 compared to a loss of euro 1.8 million as at 30 September 2013); partially offset by the negative contribution of Alba Leasing (euro -0.4 million compared to euro -4.7 million at the end of the third quarter of 2013).

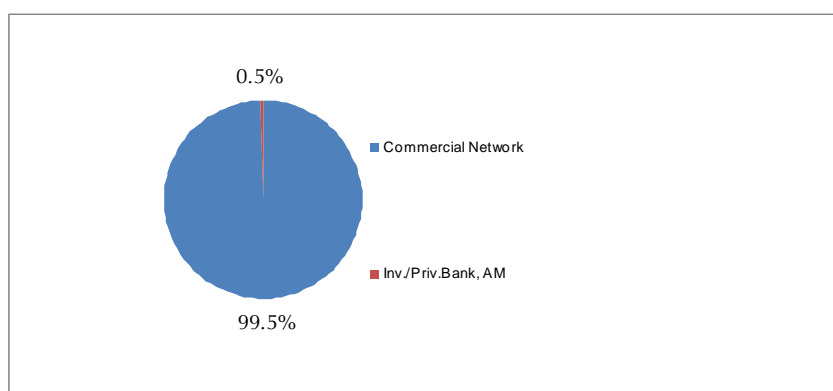
Net fee and commission income

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
MANAGEMENT, BROKERAGE AND ADVISORY SERVICES	536,436	501,095	35,341	7.1%
Distribution of savings products	415,052	383,440	31,612	8.2%
- Placement of securities	1,852	24,254	(22,402)	(92.4%)
- Asset management	291,348	279,313	12,035	4.3%
- Bancassurance	121,852	79,873	41,979	52.6%
Consumer credit	23,046	26,128	(3,082)	(11.8%)
Credit cards	24,618	25,202	(584)	(2.3%)
Custodian bank	11,185	7,907	3,278	41.5%
Trading securities, currencies and acceptance of orders	49,683	43,661	6,022	13.8%
Other	12,852	14,757	(1,905)	(12.9%)
CURRENT ACCOUNT MANAGEMENT AND LOANS TO CUSTOMERS	390,880	415,388	(24,508)	(5.9%)
COLLECTION AND PAYMENT SERVICES	91,164	89,866	1,298	1.4%
GUARANTEES GIVEN	16,993	17,723	(730)	(4.1%)
OTHER SERVICES	39,481	43,642	(4,161)	(9.5%)
Total	1,074,954	1,067,714	7,240	0.7%



Net fee and commission income amounted to euro 1,075.0 million, up 0.7% compared to the euro 1,067.7 million recorded as at 30 September 2013, with a contribution of euro 356.0 million in the third quarter of 2014, up against both the figure for the second quarter (euro 347.3 million, +2.5%) and that for the third quarter of 2013 (euro 324.5 million, +9.7%). Net fee and commission income continued to record good levels, with a quarterly average higher than that recorded for the whole of FY 2013 (euro 358.3 million against euro 346.8 million). This uptrend is entirely due to net fee and commission income from management, brokerage and advisory services, which was euro 536.4 million, up 7.1% compared to euro 501.1 million recorded in the first nine months of 2013, due to the placement of Group funds and insurance products, which offset the lack of placement of third party products.

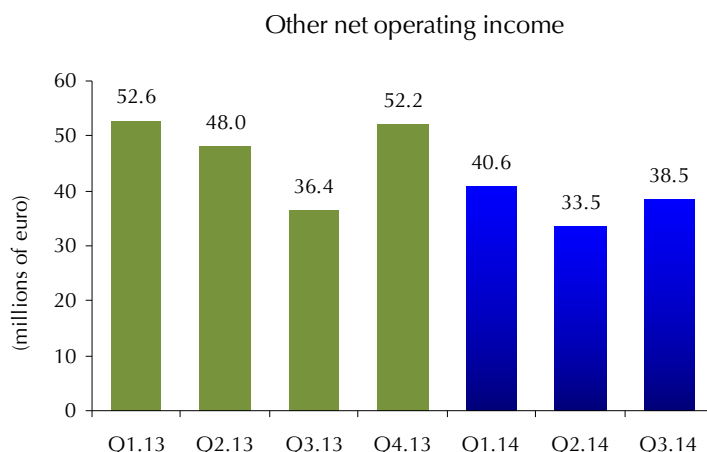
<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Commercial Network	1,075,035	1,024,053	50,982	5.0%
Investment Banking, Private Banking, Asset Management	5,300	42,934	(37,634)	(87.7%)
Total business areas	1,080,335	1,066,987	13,348	1.3%
Leasing	(518)	2,543	(3,061)	
Corporate Centre and Other	(4,863)	(1,816)	3,047	167.8%
Total net fee and commission income	1,074,954	1,067,714	7,240	0.7%



As with the interest margin, the Commercial Network represents by far the largest source of fee and commission income, up by 5% compared to the corresponding period of the previous year due to the higher volumes of investment products placed with customers. The Investment Banking & Asset Management service instead recorded a fall, due to the fact that in the first nine months of 2014, there were no commissions relating to the role of arranger performed by the subsidiary Banca Aletti and there was no up-front income on funds placed by Aletti Gestielle SGR, which instead had been recorded in the corresponding period of last year. Furthermore, Banca Aletti recorded a higher level of commission expense paid to Banco Popolare's commercial network for the placement of certificates.

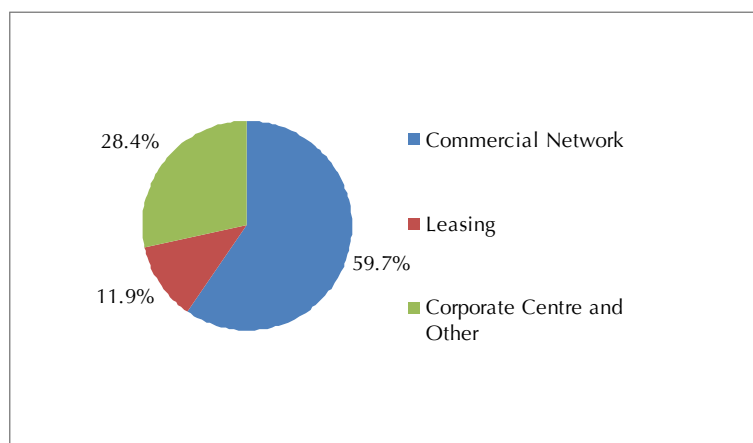
Other net operating income

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Income on current accounts and loans	80,995	115,487	(34,492)	(29.9%)
Rents receivable	39,008	42,471	(3,463)	(8.2%)
Maintenance on property and leased assets	(7,544)	(7,717)	(173)	(2.2%)
Other income and charges	22,446	10,950	11,496	105.0%
Subtotal	134,905	161,191	(26,286)	(16.3%)
Client relationship (PPA)	(22,317)	(24,209)	1,892	7.8%
Total	112,588	136,982	(24,394)	(17.8%)



Other net operating income was euro 112.6 million, down compared to the euro 137.0 million recorded in the corresponding period of 2013, with a contribution in the third quarter of euro 38.5 million compared to euro 33.5 in the second and euro 40.6 million in the first. This fall was substantially due to the reduction in the amount of “commissioni di istruttoria veloce” charged to customers, also due to the fall in the average volume of loans.

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Commercial Network	81,003	115,572	(34,569)	(29.9%)
Leasing	16,215	17,556	(1,341)	(7.6%)
Corporate Centre and Other	38,592	27,683	10,909	39.4%
Total business areas	135,810	160,811	(25,001)	(15.5%)
Investment Banking, Private Banking, Asset Management	(905)	380	(1,285)	
PPA	(22,317)	(24,209)	1,892	7.8%
Total other net operating income	112,588	136,982	(24,394)	(17.8%)



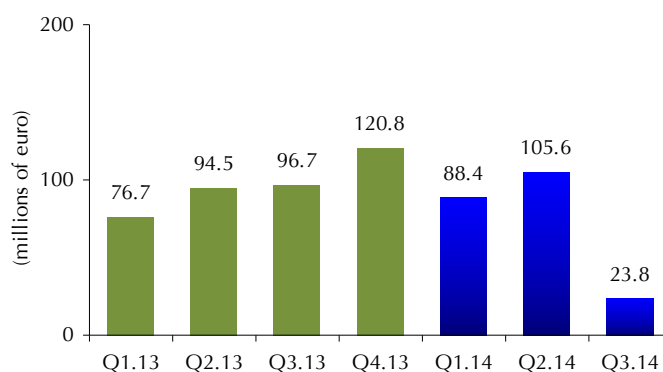
As regards the Commercial Network, the result for the first nine months is mainly linked to “commissioni di istruttoria veloce”, which were down in any event compared to the figure recorded in the corresponding period of the previous

year. The contribution of Leasing to the consolidated result, down compared to that of the first nine months of 2013, is related to income from the rental of properties resulting from credit collection, net of charges relating to the maintenance of the same. The result of the Corporate Centre instead is due to amounts received from renting the properties of other Group real estate companies to third parties, as well as from income from Tecmarket, the latter recording a rise compared to the corresponding period of the previous year.

Net financial result

<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Dividends and similar income on financial assets	14,395	9,679	4,716	48.7%
Fair value adjustments in hedge accounting	(3,561)	(1,165)	2,396	205.7%
Banca Aletti	119,654	148,407	(28,753)	(19.4%)
Securities portfolio and Parent Company derivatives	87,285	111,004	(23,719)	(21.4%)
Total net of FVO	217,773	267,925	(50,152)	(18.7%)
Change in creditworthiness (FVO)	(33,720)	(32,427)	(1,293)	
Total	184,053	235,498	(51,445)	(21.8%)

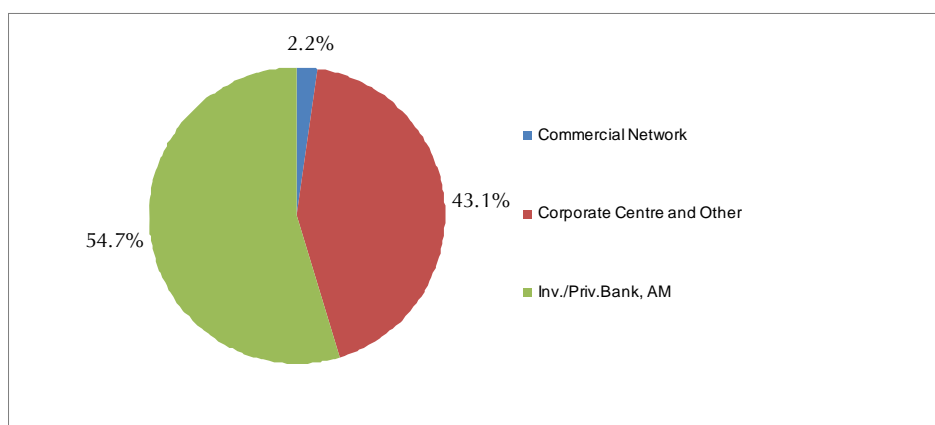
Net financial result (without FVO)



The **net financial result without FVO** was a profit of euro 217.8 million, compared with euro 267.9 million recorded for the same period of the previous year, with a contribution of euro 23.8 million in the third quarter of 2014 (against euro 96.7 million recorded in the third quarter of 2013). The result for the period is substantially in line with that of 30 September 2013, taking into account the fact that the latter benefited both from a positive impact of euro 37.6 million due to the repurchase of financial liabilities issued by the Group, and from higher gains generated by the sale of available for sale financial assets compared to those recognised in the first nine months of 2014 (euro 70.5 million as at 30 September 2013 against euro 50.2 million for the current period) and which included, inter alia, a profit of euro 31.3 million made on the sale of the equity investment held in Azimut Holding in the third quarter of 2013. This item benefits from the continuous contribution provided by the operations of the subsidiary company Banca Aletti, corresponding to euro 119.7 million as at 30 September 2014, down against euro 148.4 million recorded in the first nine months of 2013, due to the fact that efforts were focused on the issue of certificates to boost the Group's liquidity, and to the good performance of the management of the Parent Company's securities portfolio.

The impact of the **change in the creditworthiness of liabilities issued designated at fair value (FVO)**, shown as a separate item on the reclassified income statement, due to the improvement in the creditworthiness of Banco Popolare, was negative for the current period, corresponding to euro -33.7 million (euro -22.4 million after tax), as it also was in the first quarter of 2014 (euro -30.1 million and euro -20.1 million before and after tax), with a contribution in the third quarter of euro +3.4 million (euro +2.3 million after tax). The impact of the FVO in the first nine months of 2013 led to a very similar result, corresponding to euro -32.4 million (euro -21.7 million after tax).

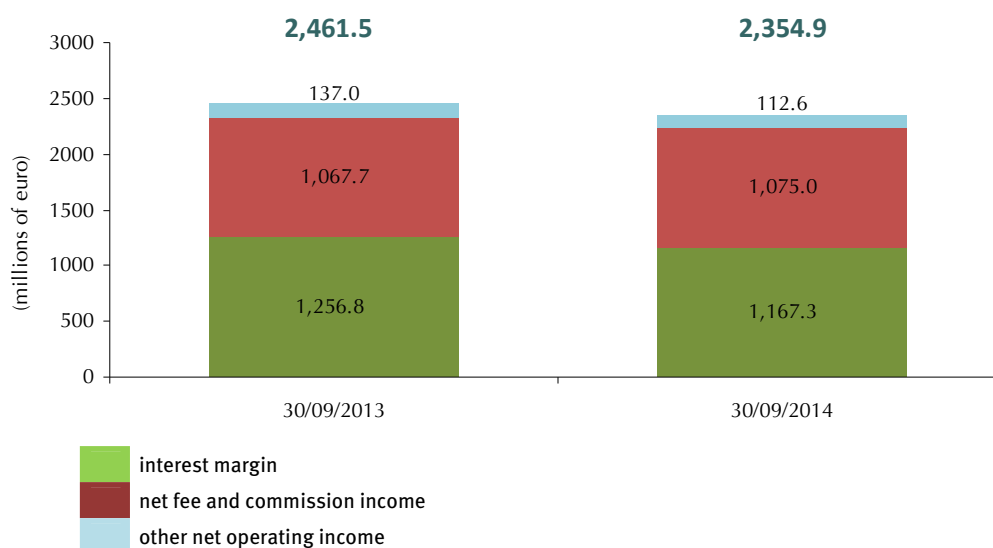
<i>(in thousands of euro)</i>	30/09/2014	30/09/2013	Absolute change	% change
Commercial Network	4,805	7,035	(2,230)	(31.7%)
Investment Banking, Private Banking, Asset Management	119,420	148,349	(28,929)	(19.5%)
Corporate Centre and Other	93,935	117,970	(24,035)	(20.4%)
Total business areas	218,160	273,354	(55,194)	(20.2%)
Leasing	(387)	(5,429)	(5,042)	(92.9%)
PPA & FVO	(33,720)	(32,427)	(1,293)	
Total net financial result	184,053	235,498	(51,445)	(21.8%)



The contribution of the Investment Banking segment to the net financial consolidated result, net of the change in creditworthiness of its own liabilities issued, is mostly due to the result of the subsidiary Banca Aletti, which was euro 119.7 million (euro 148.4 as at 30 September 2013). Given sales volumes of structured products and trading derivatives that were down compared to the corresponding period of the previous year, the fall in the contribution is due to the increase of the interest margin, resulting from the decision to extend issue of certificates.

The fall in the contribution of the Corporate Centre to the net financial result is mainly justified by the fact that the income statement for the first nine months of last year benefited both from a positive impact of euro 37.6 million due to the repurchase of financial liabilities issued by the Group, and from higher gains generated by the sale of available for sale financial assets compared to those recognised in the first nine months of 2014 (euro 70.5 million as at 30 September 2013 against euro 50.2 million for the current period). The lower contribution in 2014 was mitigated by the increase of capital gains generated by the Parent Company's securities portfolio, also resulting from the narrowing of the credit risk spread for Italy which occurred in the market during the first nine months of the year.

Core Banking Business



Taking only the revenues of the “core banking business” into account, represented by the sum of the aggregates relating to the interest margin, net fee and commission income and other net income, a fall of 4.3% was recorded for the first nine months of 2014, compared to the corresponding period of the previous year, while the contribution of the third quarter of 2014 was higher than that of the second quarter.

Operating expenses

Personnel expenses were euro 1,056.2 million, with a third quarter contribution of euro 382.0 million, and were up by 2.5% compared to euro 1,030.6 million recorded in the corresponding period of the previous year. This increase is due to the expenses (euro 67.6 million) resulting from the agreement reached in July 2014 with the Trade Union organisations regarding the retirement of 330 resources in 2015, only partially offset by the reduction of variable pay and of other provisions (totalling euro 30.3 million as at 30 September 2014) at the time of preparation of last year’s financial statements. More specifically, the contribution of the second quarter of 2014, corresponding to euro 330 million, was impacted by the non-payment of the variable part of pay allocated to provisions in 2013 amounting to euro 24.1 million. Furthermore, the figure for the first nine months of 2013 also included the cost (euro 41.9 million) resulting from the June 2013 agreement with the Trade Unions on the retirement of 250 employees through the use of provisions of the Solidarity Fund, although this cost had been substantially offset by specific measures to contain the variable pay of all employees. As at 30 September 2014, the total number of employees was 17,543 “full time equivalents” (18,036 FTE as at 30 September 2013), compared to 17,710 FTE as at 30 June 2014 and 17,671 FTE, which represents the figure rendered comparable for the beginning of the year.

Careful cost control measures were also implemented for **other administrative expenses**, which amounted to euro 509.6 million as at 30 September 2014, down 3.9% compared to euro 530.1 million recorded in the first nine months of 2013. The contribution of period enjoyed the benefit resulting from the recognition of the non-existence of several debts provided for during the previous year, the impact of which was euro 7 million in the first quarter.

Net value adjustments on property and equipment and intangible assets for the period amounted to euro 105.1 million, compared to euro 95.9 million recorded as at 30 September 2013. This increase is mainly due to value adjustments recorded in the first quarter (euro -17.6 million) for several properties classified as investments in order to bring their book value in line with the recoverable value estimated on the basis of the most recent appraisals, partially offset by the impact of the adjustment of the useful life of several categories of fixed assets, the estimated time for which the same are used was updated. The impact on the income statement of this adjustment recognised in the second quarter, was euro +6.7 million.

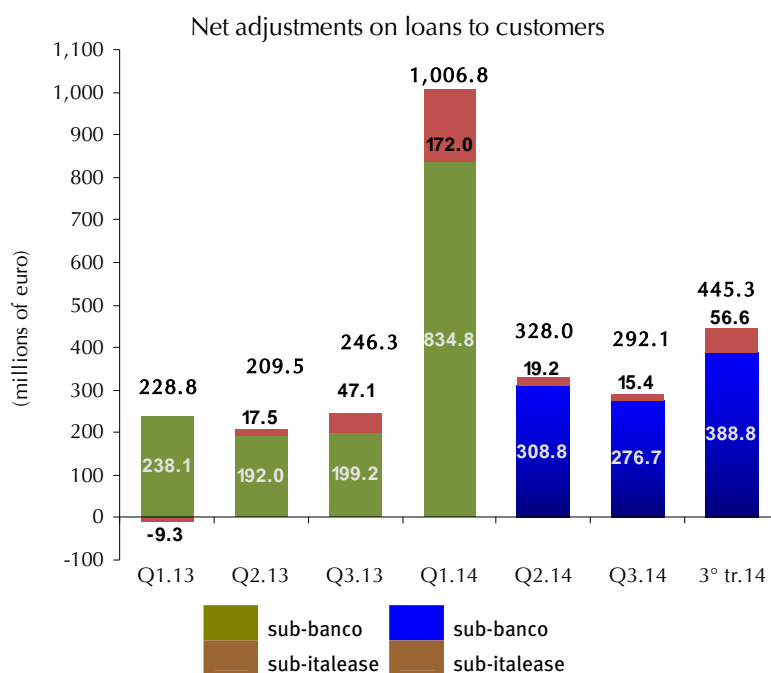
Total **operating expenses** were therefore euro 1,670.9 million and showed an increase of 0.9% compared to euro 1,656.6 million recorded in the corresponding period of the previous year. The cost/income ratio for the period, calculated as the relationship between total operating expenses and total income net of the impact of the change in creditworthiness, was 63.3%, compared to 61.5% recorded as at 30 September 2013.

Income (loss) from operations

The income (loss) from operations therefore amounted to euro 966.8 million, compared to euro 1,038.5 million recorded in the corresponding period of last year, substantially due to the extraordinary expense relating to the new solidarity fund for employees.

Adjustments and provisions

<i>(in thousands of euro)</i>	30/09/2014	BP Stand Alone	Sub-Italease
Non performing loans	1,098,096	999,357	98,739
- Bad loans	603,819	530,854	72,965
- Substandard loans	374,358	350,254	24,104
- Restructured loans	79,020	79,482	(462)
- Past due loans	40,899	38,767	2,132
Performing loans	(32,737)	(25,119)	(7,618)
Total	1,065,359	974,238	91,121



Net adjustments on impairment of loans to customers were euro 1,065.4 million (compared to euro 684.6 million of the corresponding period of last year), with a contribution in the third quarter of euro 445.3 million, up compared to euro 292 million recorded in the second quarter of 2014. The cost of credit, measured by the ratio of net value adjustments on loans to gross loans, yoy, was 158 basis points, up compared with 137 basis points recorded in the first half of this year and with 144 basis points recorded in the first quarter of 2014. This level of cost reflects the continuing difficult economic scenario and the reduction in the volume of loans.

In addition, **net adjustments on impairment of other assets** of euro 20.5 million were deducted from the income statement for the first nine months of 2014 (euro 66.5 million in the corresponding period of 2013), euro 11 million of which regards financial assets available for sale and more specifically shares of funds and equity investments, while the remainder regards debt instruments related to securitisation transactions included in the loans portfolio.

Net provisions for risks and charges recorded a positive euro 11.2 million, compared to the positive impact of euro 1.7 million for the first nine months of 2013. This positive impact is mostly due to the release of provisions to the income statement made in previous years and now no longer necessary in the light of the most recent assessments of legal risks.

During the period **profits on disposal of investments in associates and companies subject to joint control and other investments** of euro 2.1 million were recorded (in the first nine months of 2013, losses on disposals of euro -0.7 were recorded), resulting from income mainly generated by capital gains on the disposal of owned real estate and to a lesser extent from the completion of the winding-up procedure of a foreign subsidiary.

Income (loss) before tax from continuing operations

Income (loss) before tax from continuing operations was therefore a loss of euro 105.7 million, compared to a profit of euro 383.9 million recorded in the corresponding period of the previous year. It is important to note that the result for the first nine months of 2013 benefited from the recovery on the value of associated companies totalling euro 95.5 million net (of which euro 105.8 million refers to Agos Ducato), as well as a lower overall level of adjustments on loans and on other assets compared to those of the first nine months of this year.

Other revenue and cost items

Taxes on income from continuing operations as at 30 September 2014 amounted to euro -2.3 million, compared to euro -182.2 million recorded in the corresponding period of the previous year. The tax burden of the first nine months of 2014 suffered the impact of higher taxation on the capital gain recorded in 2013 resulting from the revaluation of the stakes held in the share capital of the Bank of Italy of euro 14.5 million, as well as the impact of the lower IRAP rate on the book value of deferred tax assets and liabilities recorded as at 31 December 2013, the recalculation of which on the basis of the new rates resulted in a net deduction from the income statement of euro 15.4 million.

Income/loss after tax from discontinued operations recorded a marginal loss (as at 30 September 2013, it amounted to euro -3.5 million and included the contribution of the subsidiary BP Croatia).

Given the option of charging minority interest losses of euro 8.7 million (in the first nine months of 2013 a profit of euro 11.1 million was credited to minority interests), and considering the impact of the FVO illustrated previously, the first nine months of the year closed with a **loss for the period** of euro 121.7 million, compared to a profit of euro 165.4 million recorded in the corresponding period of the previous year.

Consolidated balance sheet figures

The reclassified balance sheet represents a simple aggregation of the items envisaged in the balance sheet layout as per the Bank of Italy circular No. 262 dated 22 December 2005.

The main aggregations regarding the balance sheet are as follows:

- the asset item “Financial assets and hedging derivatives” encompasses the financial instruments shown in the portfolios relating to “Financial assets held for trading”, “Financial assets designated at fair value through profit and loss”, “Financial assets available for sale”, “Investments held to maturity” and “Hedging derivatives” shown under assets items 20, 30, 40, 50 and 80 in the Bank of Italy schedule;
- the residual asset item “Other assets” aggregates the “Fair value change of financial assets in macro fair value hedge portfolios”, “Tax assets” and “Other assets” (respectively asset items 90, 140 and 160);
- the grouping of the amount due to customers (item 20) and securities issued (classified under items 30 and 50, as a function of the application or otherwise of the fair value option) into a single item;
- the inclusion of the financial instruments recognised in the financial statements in portfolios relating to “Financial liabilities held for trading” and “Hedging derivatives” (respectively liability items 40 and 60) as a single aggregate;
- the grouping of the “Liability provisions” for “Employee termination indemnities” (item 110) and “Provisions for risks and charges” (item 120) into a single item;
- the residual liability item “Other liabilities” includes the “Fair value change of financial liabilities in macro fair value hedge portfolios”, “Tax liabilities” and “Other liabilities” (respectively liability items 70, 80 and 100);
- the indication of “capital and reserves” as an aggregate, net of any treasury shares held (financial statement items 140, 160, 170, 180, 190 and 200).

Reclassified asset items (in thousands of euro)	30/09/2014	31/12/2013	Changes	
Cash and cash equivalents	540,157	639,632	(99,475)	(15.6%)
Financial assets and hedging derivatives	25,982,858	24,590,138	1,392,720	5.7%
Due from banks	4,593,684	3,753,227	840,457	22.4%
Loans to customers	84,042,428	86,148,995	(2,106,567)	(2.4%)
Investments in associates and companies subject to joint control	1,036,910	1,033,764	3,146	0.3%
Property and equipment	2,020,249	2,052,250	(32,001)	(1.6%)
Intangible assets	2,295,977	2,299,243	(3,266)	(0.1%)
Non-current assets held for sale and discontinued operations	94,518	390,860	(296,342)	(75.8%)
Other assets	5,314,501	5,134,543	179,958	3.5%
Total	125,921,282	126,042,652	(121,370)	(0.1%)

Reclassified liabilities and shareholders' equity (in thousands of euro)	30/09/2014	31/12/2013	Changes	
Due to banks	17,501,578	17,403,066	98,512	0.6%
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	85,508,719	90,017,669	(4,508,950)	(5.0%)
Financial liabilities and hedging derivatives	7,064,479	5,157,955	1,906,524	37.0%
Liability provisions	1,179,754	1,287,617	(107,863)	(8.4%)
Liabilities associated with non-current assets held for sale and discontinued operations	-	275,511	(275,511)	
Other liabilities	4,751,314	3,378,181	1,373,133	40.6%
Minority interests	42,170	349,039	(306,869)	(87.9%)
Shareholders' equity	9,873,268	8,173,614	1,699,654	20.8%
- Capital and reserves	9,995,014	8,779,909	1,215,105	13.8%
- Net income (loss) for the period	(121,746)	(606,295)	(484,549)	(79.9%)
Total	125,921,282	126,042,652	(121,370)	(0.1%)

The trends in the main balance sheet items as at 30 September 2014 are illustrated below, compared with the figures as at 31 December of the previous year.

Note that, in order to understand the contribution of Banca Italease and its subsidiaries, the analysis of the loans component as at 30 September 2014 is also shown in a version that separates the contribution of the former Banca Italease Group from that of the rest of the Banco Popolare Group ("Banco Popolare stand-alone"). Both the above aggregates are stated before the effects of the infragroup transactions which took place between the Banco Popolare stand-alone Group companies and those of the former Banca Italease Group.

Loan brokering activities

Direct funding

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due to customers	49,448,093	57.8%	47,708,195	53.0%	1,739,898	3.6%
Deposits and current accounts	42,942,696	50.2%	39,664,672	44.1%	3,278,024	8.3%
- current accounts and demand deposits	38,721,192	45.3%	37,045,267	41.2%	1,675,925	4.5%
- time deposits	4,221,504	4.9%	2,619,405	2.9%	1,602,099	61.2%
Repurchase agreements	5,196,127	6.1%	6,489,066	7.2%	(1,292,939)	(19.9%)
Loans and other payables	1,309,270	1.5%	1,554,457	1.7%	(245,187)	(15.8%)
Securities	36,060,626	42.2%	42,309,474	47.0%	(6,248,848)	(14.8%)
Bonds and other securities	33,519,764	39.2%	39,763,795	44.2%	(6,244,031)	(15.7%)
Certificates of deposit	2,540,862	3.0%	2,545,679	2.8%	(4,817)	(0.2%)
Total direct funding	85,508,719	100.0%	90,017,669	100.0%	(4,508,950)	(5.0%)

As at 30 September 2014, direct funding totalled euro 85.5 billion and recorded a decrease of 5% compared to euro 90 billion as at 31 December 2013 and 1.8% compared to euro 87.1 billion recorded at the end of the first half (-6.9% compared to 30 September 2013, when the figure recorded was euro 91.8 billion). Compared with September 2013, the fall is due to reduction of bond deposits (mainly institutional), while the rise in traditional funding (current accounts and deposits) was almost entirely offset by the lower levels of repurchase agreements and securities lending (again mainly related to the counterparty represented by the Clearing and Guarantee House). Compared to the end of 2013, the fall in funding is exclusively due to the redemption of bond issues maturing (in the third quarter alone, around 2 billion retail issues were redeemed, as they had reached maturity), while funding in the form of current accounts and demand deposits recorded a significant increase, partially offset by the fall in securities lending and repurchase agreements.

Indirect funding

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Managed assets	32,114,361	47.9%	28,761,684	45.1%	3,352,677	11.7%
- mutual funds and SICAVs	15,258,895	22.8%	12,868,210	20.2%	2,390,685	18.6%
- securities and fund management	6,599,136	9.8%	6,530,648	10.2%	68,488	1.0%
- insurance policies	10,256,330	15.3%	9,362,826	14.7%	893,504	9.5%
<i>of which: Lawrence Life policies</i>	<i>3,175,695</i>	<i>4.7%</i>	<i>2,969,010</i>	<i>4.7%</i>	<i>206,685</i>	<i>7.0%</i>
Administered assets	34,891,136	52.1%	35,081,477	54.9%	(190,341)	(0.5%)
Total indirect funding	67,005,497	100.0%	63,843,161	100.0%	3,162,336	5.0%

Indirect funding totalled euro 67 billion, up 5% compared to euro 63.8 billion recorded at the beginning of the year (+10.8% compared to the figure as at 30 September 2013).

The increase recorded in the first nine months of 2014 is due to the uptrend recorded for managed assets, which gained 11.7% against the beginning of the year (+12.9% if compared to the figure as at 30 September 2013). The increase for the period is substantially due to placements of shares of funds and SICAVs (+18.6% against the end of 2013) and of insurance policies (+9.5%). Administered assets fell slightly (-0.5% compared to the end of last year).

Loans to customers

Banco Popolare Group

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	12,877,227	15.3%	13,882,025	16.1%	(1,004,798)	(7.2%)
Repurchase agreements	7,008,090	8.3%	7,882,401	9.1%	(874,311)	(11.1%)
Mortgage loans	39,445,711	46.9%	40,433,913	46.9%	(988,202)	(2.4%)
Credit cards, personal loans and salary-backed loans	268,419	0.3%	243,721	0.3%	24,698	10.1%
Financial leases	4,161,788	5.0%	4,430,743	5.1%	(268,955)	(6.1%)
Factoring	12,861	0.0%	19,573	0.0%	(6,712)	(34.3%)
Other loans	19,657,222	23.4%	18,739,874	21.8%	917,348	4.9%
Debt securities	611,110	0.7%	516,745	0.6%	94,365	18.3%
Total net loans to customers	84,042,428	100.0%	86,148,995	100.0%	(2,106,567)	(2.4%)

As at 30 September 2014, total net loans had reached the figure of euro 84,042.4 million, down 2.4% compared to the figure of euro 86,149.0 million recorded as at 31 December 2013. The decrease regarded all different types of loans, with the exception of “other loans”, “debt securities” and “credit cards, personal loans and salary-backed loans”. Before value adjustments, Group loans amounted to euro 89,929.4 million and showed a 1.8% fall compared with euro 91,582.8 million at the start of the year (-4.3% compared to 30 September 2013).

Banco Popolare Group (stand-alone)

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	12,916,885	16.0%	13,890,660	16.9%	(973,775)	(7.0%)
Repurchase agreements	7,008,090	8.7%	7,882,401	9.6%	(874,311)	(11.1%)
Mortgage loans	38,536,610	47.7%	39,454,007	48.1%	(917,397)	(2.3%)
Credit cards, personal loans and salary-backed loans	268,419	0.3%	243,721	0.3%	24,698	10.1%
Factoring	12,861	0.0%	19,573	0.0%	(6,712)	(34.3%)
Other loans	21,728,235	26.9%	20,352,139	24.8%	1,376,096	6.8%
Debt securities	308,105	0.4%	134,232	0.2%	173,873	129.5%
Total net loans to customers	80,779,205	100.0%	81,976,733	100.0%	(1,197,528)	(1.5%)

Net of the total value adjustments and the contribution of the Banca Italease group, loans came to euro 80,779.2 million, down 1.5% compared to euro 81,976.7 million as at 31 December 2013 (-4.7% compared to 30 September 2013). Excluding the reduction of the most volatile component, represented by repurchase agreements with institutional customers, gross loans would have recorded a decrease of only 0.4%, corresponding to around euro 288 million in absolute terms.

Banca Italease Group

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	278	0.0%	66	0.0%	212	321.2%
Mortgage loans	912,319	15.8%	983,109	15.6%	(70,790)	(7.2%)
Financial leases	4,223,068	73.0%	4,495,191	71.2%	(272,123)	(6.1%)
Other loans	349,124	6.0%	449,826	7.1%	(100,702)	(22.4%)
Debt securities	303,005	5.2%	382,513	6.1%	(79,508)	(20.8%)
Total net loans to customers	5,787,794	100.0%	6,310,705	100.0%	(522,911)	(8.3%)

Net loans to customers as at 30 September 2014 amounted to euro 5,787.8 million, down 8.3% compared to the end of December 2013. Before value adjustments and infragroup components, Banca Italease’s loans continue to fall, going from euro 7,498.7 million at the beginning of the year to the current euro 7,014.8 million (-6.5%).

The fall in receivables for lease contracts and mortgage loans compared to December 2013, not only linked to early extinguishments and the assignment of non performing loans, was also affected by the normal amortisation of performing loans.

Other receivables also includes receivables relating to assets under construction and those relating to assets awaiting finance leases (corresponding to euro 127.8 million) and receivables purchased without recourse (154.6 million). Debt securities, totalling euro 303.0 million, are mostly represented by junior notes and senior notes not placed on the

market, corresponding to the portfolio transferred to Alba Leasing by means of an agreement on securitised loans, drawn up at the end of 2009. The agreement envisages that the above securities continue to belong to Banca Italease.

Credit quality

Banco Popolare Group

(in thousands of euro)	30/09/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	6,220,397	7.4%	5,528,635	6.4%	691,762	12.5%
Substandard loans	6,990,947	8.3%	6,627,717	7.7%	363,230	5.5%
Restructured loans	1,059,238	1.3%	1,083,754	1.3%	(24,516)	(2.3%)
Past due loans	672,943	0.8%	773,563	0.9%	(100,620)	(13.0%)
Non performing loans	14,943,525	17.8%	14,013,669	16.3%	929,856	6.6%
Performing loans	69,098,903	82.2%	72,135,326	83.7%	(3,036,423)	(4.2%)
Total loans to customers	84,042,428	100.0%	86,148,995	100.0%	(2,106,567)	(2.4%)

(in thousands of euro)	30/09/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
<i>a) Bad loans before derecognition of receivables relating to insolvency proceedings</i>	13,609,829	(7,389,432)	6,220,397	54.29%	12,203,916	(6,675,281)	5,528,635	54.70%	1,405,913	11.5%	714,151
<i>b) Bad loans relating to insolvency proceedings derecognised</i>	3,663,793	(3,663,793)	-		3,299,262	(3,299,262)	-				
Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	9,946,036	(3,725,639)	6,220,397	37.46%	8,904,654	(3,376,019)	5,528,635	37.91%	1,041,382	11.7%	349,620
Substandard loans	8,539,224	(1,548,277)	6,990,947	18.13%	8,104,898	(1,477,181)	6,627,717	18.23%	434,326	5.4%	71,096
Restructured loans	1,367,307	(308,069)	1,059,238	22.53%	1,316,968	(233,214)	1,083,754	17.71%	50,339	3.8%	74,855
Past due loans	723,636	(50,693)	672,943	7.01%	831,334	(57,771)	773,563	6.95%	(107,698)	(13.0%)	(7,078)
Non performing loans	20,576,203	(5,632,678)	14,943,525	27.37%	19,157,854	(5,144,185)	14,013,669	26.85%	1,418,349	7.4%	488,493
Performing loans	69,353,157	(254,254)	69,098,903	0.37%	72,424,980	(289,654)	72,135,326	0.40%	(3,071,823)	(4.2%)	(35,400)
Total loans to customers	89,929,360	(5,886,932)	84,042,428	6.55%	91,582,834	(5,433,839)	86,148,995	5.93%	(1,653,474)	(1.8%)	453,093

Bad loans relating to debtors subject to insolvency proceedings

The Bank of Italy Circular no. 272 dated 30 July 2008 (IV update dated 18 December 2012) envisages the option to derecognise the portion of bad loans retained unrecoverable from the accounts. The cited regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. Group banks exercised this option in the current year and in previous years. The derecognition regarding the part retained non-recoverable of all receivables due from debtors, who, during the year, were subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though the banks were regularly admitted as creditors in the insolvency proceedings for the entire amount of the receivable in question.

More specifically, in the first nine months of 2014, bad loans (to the extent of the part retained non-recoverable) amounting to euro 566.5 million were derecognised. At the time of derecognition, specific adjusting entries were in place for around euro 326.2 million, following value adjustments on loans already charged to the income statement. Therefore, the derecognition resulted in charges to the income statement of around euro 240.3 million.

In the first nine months of 2014, insolvency proceedings involving receivables totalling euro 202 million that had already been derecognised in previous years were finalised.

As a result of the above change, as at 30 September 2014, the bad loans derecognised relating to insolvency proceedings that are still under way amounted to euro 3,663.8 million.

In order to calculate the effective level of coverage of bad loans, the amount of the above-mentioned derecognised receivables must also be taken into account. The effective level of coverage of Group bad loans as at 30 September 2014 was 54.3% (54.4% as at 30 June 2014) as shown in line a) "bad loans before derecognition of receivables relating to insolvency proceedings" in the table above.

Non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 14,943.5 million as at 30 September 2014 and recorded a 6.6% rise with respect to euro 14,013.7 million recorded at the beginning of the year. The related trend shows net non performing loans representing a higher percentage of total net loans to customers, rising from 16.3% at year end to 17.8% at the end of September 2014 (14.6% as at 30 September 2013); a similar increase was recorded for the percentage represented by the same before value adjustments, rising to 22.9% (18.6% as at 30 September 2013) from 20.9% at the end of 2013. Including the receivables to be derecognised, the rate of coverage of non performing loans was 38.4%, slightly up on 37.6% recorded as at 31 December 2013.

More specifically, bad loans before and after value adjustments amounted to euro 9,946.0 million and euro 6,220.4 million respectively (+11.7% and +12.5% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 11.1% and 7.4% respectively (against 9.7% and 6.4% respectively as at 31 December 2013). Taking into account receivables for bad loans relating to debtors undergoing legal proceedings, which as at 30 September were still in progress, but had already been derecognised from the accounts, the rate of coverage was 54.3%, slightly lower than 54.7% recorded as at 31 December 2013.

Substandard loans before and after value adjustments amounted to euro 8,539.2 million and euro 6,990.9 million respectively (+5.4% and +5.5% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 9.5% and 8.3% respectively (against 8.9% and 7.7% respectively at the end of last year). The rate of coverage was 18.1%, in line with 18.2% recorded at the end of last year.

Restructured loans before and after value adjustments amounted to euro 1,367.3 million, marking a rise of 3.8% against the corresponding values for the end of 2013; after value adjustments, restructured loans amounted to euro 1,059.2 million, down 2.3% against last December. This meant that the rate of coverage rose to 22.5%, compared to 17.7% recorded at the end of 2013.

Past due loans before and after value adjustments amounted to euro 723.6 million and 672.9 million respectively, and were down 13% compared to the end of 2013. The rate of coverage was 7.0%, substantially unchanged with respect to the end of 2013.

The coverage of performing loans fell slightly to 0.37% (0.38% as at 30 June 2014) from 0.40% as at 31 December 2013.

Banco Popolare Group (stand-alone)

(in thousands of euro)	30/09/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	5,008,511	6.2%	4,309,701	5.3%	698,810	16.2%
Substandard loans	5,507,919	6.8%	5,102,701	6.2%	405,218	7.9%
Restructured loans	963,770	1.2%	993,432	1.2%	(29,662)	(3.0%)
Past due loans	637,984	0.8%	669,929	0.8%	(31,945)	(4.8%)
Non performing loans	12,118,184	15.0%	11,075,763	13.5%	1,042,421	9.4%
Performing loans	68,661,021	85.0%	70,900,970	86.5%	(2,239,949)	(3.2%)
Total loans to customers	80,779,205	100.0%	81,976,733	100.0%	(1,197,528)	(1.5%)

(in thousands of euro)	30/09/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
<i>a) Bad loans before derecognition of receivables relating to insolvency proceedings</i>	11,562,610	(6,554,099)	5,008,511	56.68%	10,214,417	(5,904,716)	4,309,701	57.81%	1,348,193	13.2%	649,383
<i>b) Bad loans relating to insolvency proceedings derecognised</i>	3,663,793	(3,663,793)	-		3,299,262	(3,299,262)	-				
Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	7,898,817	(2,890,306)	5,008,511	36.59%	6,915,155	(2,605,454)	4,309,701	37.68%	983,662	14.2%	284,852
Substandard loans	6,744,762	(1,236,843)	5,507,919	18.34%	6,249,093	(1,146,392)	5,102,701	18.34%	495,669	7.9%	90,451
Restructured loans	1,249,031	(285,261)	963,770	22.84%	1,207,875	(214,443)	993,432	17.75%	41,156	3.4%	70,818
Past due loans	686,190	(48,206)	637,984	7.03%	722,396	(52,467)	669,929	7.26%	(36,206)	(5.0%)	(4,261)
Non performing loans	16,578,800	(4,460,616)	12,118,184	26.91%	15,094,519	(4,018,756)	11,075,763	26.62%	1,484,281	9.8%	441,860
Performing loans	68,860,370	(199,349)	68,661,021	0.29%	71,128,089	(227,119)	70,900,970	0.32%	(2,267,719)	(3.2%)	(27,770)
Total loans to customers	85,439,170	(4,659,965)	80,779,205	5.45%	86,222,608	(4,245,875)	81,976,733	4.92%	(783,438)	(0.9%)	414,090

Non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 12,118.2 million as at 30 September 2014 and recorded a 9.4% rise with respect to euro 11,075.8 million recorded at the beginning of the year. The related trend shows net non performing loans representing a higher percentage of total net loans to customers, rising from 13.5% to 15.0% (11.9% as at 30 September 2013); a similar increase was recorded for the percentage represented by the same before value adjustments, rising from 17.5% to 19.4%. Including the receivables to be derecognised, the rate of coverage of non performing loans was 40.1%, up compared to 39.8% at the end of 2013.

More specifically, bad loans before and after value adjustments amounted to euro 7,898.8 million and euro 5,008.5 million respectively (+14.2% and +16.2% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 9.2% and 6.2% respectively (against 8.0% and 5.3% respectively at the end of the previous year). Taking into account receivables for bad loans relating to debtors undergoing legal proceedings, which as at 30 September were still in progress, but have already been derecognised from the accounts, the rate of coverage was 56.7% (57.3% as at 30 September 2013) against 57.8% as at 31 December 2013.

Substandard loans before and after value adjustments amounted to euro 6,744.8 million and euro 5,507.9 million respectively (+7.9% compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 7.9% and 6.8% respectively (against 7.2% and 6.2% respectively for the same period of the previous year). The rate of coverage was 18.3% (16.8% as at 30 September 2013), unchanged compared to last year.

Restructured loans before value adjustments amounted to euro 1,249.0 million, marking a rise of 3.4% against the corresponding values for last year; after value adjustments, they amounted to euro 963.8 million, down 3.0% against euro 993.4 million at the end of last year. The rate of coverage rose therefore to 22.8% (16.8% as at 30 September 2013) compared to 17.8% last year.

Past due loans before and after value adjustments were euro 686.2 million and euro 638.0 million respectively, and were lower than the corresponding figures for 2013 (euro 722.4 million and euro 669.9 million respectively). The rate of coverage was 7.0%, slightly down on the figure for last year of 7.3%.

The rate of coverage of performing loans was substantially unchanged at 0.29% (0.30% as at 30 June 2014) compared with 0.32% as at 31 December 2013.

Banca Italease Group

(in thousands of euro)	30/09/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,211,886	20.9%	1,218,934	19.3%	(7,048)	(0.6%)
Substandard loans	1,483,028	25.6%	1,525,016	24.2%	(41,988)	(2.8%)
Restructured loans	95,468	1.6%	90,322	1.4%	5,146	5.7%
Past due loans	34,959	0.6%	103,634	1.6%	(68,675)	(66.3%)
Non performing loans	2,825,341	48.8%	2,937,906	46.6%	(112,565)	(3.8%)
Performing loans	2,962,453	51.2%	3,372,799	53.4%	(410,346)	(12.2%)
Total loans to customers	5,787,794	100.0%	6,310,705	100.0%	(522,911)	(8.3%)

(in thousands of euro)	30/09/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
Bad loans	2,047,219	(835,333)	1,211,886	40.80%	1,989,499	(770,565)	1,218,934	38.73%	57,720	2.9%	64,768
Substandard loans	1,794,462	(311,434)	1,483,028	17.36%	1,855,805	(330,789)	1,525,016	17.82%	(61,343)	(3.3%)	(19,355)
Restructured loans	118,276	(22,808)	95,468	19.28%	109,093	(18,771)	90,322	17.21%	9,183	8.4%	4,037
Past due loans	37,446	(2,487)	34,959	6.64%	108,938	(5,304)	103,634	4.87%	(71,492)	(65.6%)	(2,817)
Non performing loans	3,997,403	(1,172,062)	2,825,341	29.32%	4,063,335	(1,125,429)	2,937,906	27.70%	(65,932)	(1.6%)	46,633
Performing loans	3,017,358	(54,905)	2,962,453	1.82%	3,435,334	(62,535)	3,372,799	1.82%	(417,976)	(12.2%)	(7,630)
Total loans to customers	7,014,761	(1,226,967)	5,787,794	17.49%	7,498,669	(1,187,964)	6,310,705	15.84%	(483,908)	(6.5%)	39,003

As regards the Italease Group, consolidated gross non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 2,825.3 million as at 30 September 2014, down compared to euro 2,937.9 million recorded at the beginning of the year. Considering that the performing loans portfolio is in substantial run-off and therefore continuously falling, the percentage represented by non performing of total net loans to customers, rose from 46.6% at year end to 48.8% as at 30 September 2014 (a similar increase was recorded for the percentage represented by the same before value adjustments, rising to 57.0% from the previous 54.2%). The rate of coverage of non performing loans was 29.3%, compared to 27.7% at the end of 2013.

More specifically, bad loans before and after value adjustments amounted to euro 2,047.2 million and euro 1,211.9 million respectively (+2.9% and -0.6% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 29.2% and 20.9% respectively (against 26.5% and 19.3% respectively at the end of the previous year). The rate of coverage was 40.8%, up with respect to the previous year, when it was 38.7%. If properties used as collateral are taken into consideration, the rate of coverage of bad loans exceeds 100% of gross exposures.

Substandard loans before and after value adjustments amounted to euro 1,794.5 million and euro 1,483.0 million respectively (down by 3.3% and 2.8% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 25.6% (24.7% and 24.2% respectively for the same period of the previous year). The rate of coverage was 17.4% (the same as at 30 June 2014) compared to 17.8% last year. If properties used as collateral are taken into consideration, the rate of coverage of gross substandard loans is close to 100%.

Restructured loans before and after value adjustments amounted to euro 118.3 million and 95.5 million respectively, up by 8.4% and 5.7% compared to the end of the previous year. The rate of coverage was 19.3% (17.2% at the end of 2013).

Past due loans before and after value adjustments amounted to euro 37.4 million and 35.0 million respectively. The rate of coverage was 6.6%, compared to 4.9% last year.

The rate of coverage of performing loans was 1.82%, unchanged with respect to 31 December 2013.

Financial assets

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Financial assets held for trading	3,960,016	15.2%	3,997,740	16.3%	(37,724)	(0.9%)
Financial assets designated at fair value through profit and loss	2,286	0.0%	2,229	-	57	2.6%
Financial assets available for sale	13,153,413	50.6%	11,941,238	48.6%	1,212,175	10.2%
Investments held to maturity	4,434,918	17.1%	4,198,048	17.1%	236,870	5.6%
Total Securities portfolio	21,550,633	82.9%	20,139,255	81.9%	1,411,378	7.0%
Derivative trading and hedging instruments	4,432,225	17.1%	4,450,883	18.1%	(18,658)	(0.4%)
Total Financial assets	25,982,858	100.0%	24,590,138	100.0%	1,392,720	5.7%

The breakdown by type of assets is as follows:

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	19,653,265	75.6%	18,376,850	74.7%	1,276,415	6.9%
Equity instruments	1,068,189	4.1%	884,237	3.6%	183,952	20.8%
UCIT units	829,179	3.2%	878,168	3.6%	(48,989)	(5.6%)
Total Securities portfolio	21,550,633	82.9%	20,139,255	81.9%	1,411,378	7.0%
Derivative trading and hedging instruments	4,432,225	17.1%	4,450,883	18.1%	(18,658)	(0.4%)
Total Financial assets	25,982,858	100.0%	24,590,138	100.0%	1,392,720	5.7%

The Group's financial assets as at 30 September 2014 amounted to euro 25,982.9 million, up on the figure of euro 24,590.1 million recorded as at 31 December 2013 (+5.7%); an increase can be seen mainly in the portfolio of financial assets available for sale, which recorded a rise of euro 1,212.2 million, and in the portfolio of investments held to maturity (+5.6% against the end of 2013). An analysis by asset type indicates that this increase regards almost exclusively debt securities, which as at 30 September 2014, represented over 75% of the portfolio (in line with the figure as at 31 December 2013).

Financial assets held for trading

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	3,156,961	41.0%	3,287,926	41.6%	(130,965)	(4.0%)
Equity instruments	490,396	6.4%	290,475	3.7%	199,921	68.8%
UCIT units	312,659	4.1%	419,339	5.3%	(106,680)	(25.4%)
Total Securities portfolio	3,960,016	51.4%	3,997,740	50.6%	(37,724)	(0.9%)
Financial and lending derivatives	3,738,911	48.6%	3,908,198	49.4%	(169,287)	(4.3%)
Total	7,698,927	100.0%	7,905,938	100.0%	(207,011)	(2.6%)

As regards the debt securities component of financial assets held for trading, euro 1,396.3 million is represented by Italian Government securities and euro 3.4 million by securities of other EU member States, while the remainder is comprised by corporate securities issued mainly by Italian and foreign banks.

The trading share portfolio instead mainly regards securities relating to leading Italian and foreign companies, mostly corporate customers.

Financial assets designated at fair value through profit and loss

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Equity instruments	1,303	57.0%	1,130	50.7%	173	15.3%
UCIT units	983	43.0%	1,099	49.3%	(116)	(10.6%)
Total	2,286	100.0%	2,229	100.0%	57	2.6%

Financial assets designated at fair value through profit and loss include investments in UCIT units (Undertakings for collective investment in transferable securities), mostly comprised by shares of hedge funds managed by the subsidiary company Aletti Gestielle SGR.

Equity instruments exclusively relate to the value of the insurance policy subscribed by Banco Popolare to cover the liabilities of the S.I.PRE. paid to some executives.

Financial assets available for sale

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	12,061,386	91.7%	10,890,876	91.2%	1,170,510	10.7%
Equity instruments	576,490	4.4%	592,632	5.0%	(16,142)	(2.7%)
UCIT units	515,537	3.9%	457,730	3.8%	57,807	12.6%
Total	13,153,413	100.0%	11,941,238	100.0%	1,212,175	10.2%

As at 30 September 2014, the portfolio of debt securities was comprised by Italian Government securities with a total book value of euro 9,831 million; the increase recorded in the period also mostly refers to Government securities.

The portfolio of debt securities also includes securities of European Union Member States with a total book value of euro 155.2 million, represented by Spanish securities (nominal amount of euro 150 million) maturing between 2014 and 2015. The remainder of the debt securities portfolio is comprised of securities issued by international organisations (EIB, IBRD etc.) and by corporate securities mainly represented by Italian and foreign banks.

UCIT units mainly include real estate funds of euro 32.9 million, share funds of euro 118.8 million, bond funds of euro 36.1 million and flexible funds of euro 203.9 million.

The portfolio of equity instruments is represented by investments whose value is less than 20% of the share capital of said companies, which is not considered a strategic investment by the Banco Popolare Group. The main investments in shareholdings of this nature refer to Dexia Crediop, amounting to euro 55.4 million, the Istituto Centrale delle Banche Popolari Italiane for euro 139.6 million, Palladio Finanziaria for euro 35.9 million, the investment in the Bank of Italy for euro 91.7 million, A4 Holding for euro 19.1 million, Autostrade del Brennero for euro 18.4 million, Arca SGR for euro 26.9 million, Earchimede for 13.9 million, Factorit for euro 17.4 million, S.A.C.B.O. for euro 29.8 million, SIA for euro 14.8 million, Seief for euro 9.1 million, Archimede 1 for euro 8.8 million, Veneto Sviluppato for euro 6.7 million, Risanamento for euro 4.4 million and lastly Banca Nuova Terra for euro 5.7 million.

Investments held to maturity

(in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	4,434,918	100.0%	4,198,048	100.0%	236,870	5.6%
Total	4,434,918	100.0%	4,198,048	100.0%	236,870	5.6%

This item is almost entirely represented by Italian Government debt securities and as at 30 September 2014, latent gains were around euro 320 million.

Exposure to sovereign risk

Over the course of the quarter, the climate of relaxation of interest rates on the government debt securities of the Peripheral Eurozone countries continued, but from the last few weeks of the period, a certain level of volatility was seen to emerge. This change in trend was mostly due to the deterioration of the international macro-economic scenario and that of the Eurozone, which became gradually more apparent over the summer, and, to a lesser extent, to uncertainty regarding the results of stress tests conducted jointly by the EBA and ECB on the major European Banking Groups.

While the medium-long term interest rates of Treasury bonds in the main advanced economies (United States, Japan and Germany) further fell as a result of the weak economic scenario, and as prospects of an economic recovery waned, tensions were triggered on the government debt securities of the Peripheral Eurozone countries, which continue to show considerable imbalances in their public finances. In reality, the deleveraging underway in the private sector of these countries makes it vital to maintain a trend of economic growth, in order to render the process of setting public finances sustainable.

Increasing uncertainty as to the prospects of the PIGS therefore drove investors back towards assets with a lower expected risk profile, specifically, German government securities, where returns touched a record low: in mid-October, interest rates on the 10-year Bund fell to 0.8%, around 40 basis points lower than the beginning of the quarter. The uptrend observed in the sovereign risk premiums of Peripheral countries was temporarily relieved in September by the expansive measures adopted by the ECB and by the depreciation of the Euro/USD exchange rate, reflecting the growing divergence between the monetary policies of the Federal Reserve and the ECB, which tends to increase the price competitiveness of exports from the Eurozone.

In this context, after having initially reflected the more erratic trend of those of the Peripheral European countries, the returns on Italian government securities were impacted by the reforms undertaken by the Government and the expansive measures adopted by the ECB, and touched a record low towards the end of the summer (with the 10-year BTP at 2.27%) while the spread, which had opened the quarter with 159 b.p., touched a minimum of 135 b.p. Towards the end of September, the BTP - Bund spread resumed a more erratic trend, reaching a maximum of 179 in mid-October, when tensions heightened due to fears about Greek stability. During this last period, spreads against the German Bund rose sharply at some points, then partially falling in subsequent weeks: the spread of Greek government bonds against the 10-year Bund opened reaching a high of 813 b.p. (at the beginning of the quarter, it had been 469 b.p.), then falling to 678 b.p. towards the end of October.

The Group's total exposure in sovereign debt securities as at 30 September 2014 was euro 15,967.4 million, and is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	Loans	Total
Italy	15,644,704	131,696	15,776,400
Spain	158,575	-	158,575
Austria	1,643	-	1,643
Other EU Countries	1,931	-	1,931
Total EU Countries	15,806,853	131,696	15,938,549
USA	28,830	-	28,830
Great Britain	6	-	6
Total other countries	28,836	-	28,836
Total	15,835,689	131,696	15,967,385

More specifically, the exposure is represented by:

- loans granted to the Italian State of euro 131.7 million;
- debt securities issued by central and local government of euro 15,835.7 million, euro 15,806.9 million of which was issued by EU Member States. This position is mostly held by the Parent Company Banco Popolare which, as at 30 September, held a total of euro 14,966.6 million, euro 14,811.4 million of which related to Italian Government securities.

The tables below provide more detailed information on the breakdown of the exposure in debt securities to EU nations, which represented 99% of total exposure, by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets held for trading

Country	Matures by 2014	Matures between 2014 and 2019	Matures between 2019 and 2024	Matures beyond 2024	Total fair value as at 30.09.14	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	46,153	1,337,596	1,751	10,753	1,396,253	1,396,251		2
Spain	1,512		1,845	-	3,357	3,357		
Total	47,665	1,337,596	3,596	10,753	1,399,610	1,399,608	-	2

Financial assets available for sale

Country	Matures by 2014	Matures between 2014 and 2019	Matures between 2019 and 2024	Matures beyond 2024	Total fair value as at 30.09.14	Net AFS Reserve	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy		8,353,215	261,719	1,216,055	9,830,989	104,814	-	9,792,381	38,609	-
Spain	51,630	103,588	-	-	155,218	119	-	155,218	-	-
Total	51,630	8,456,803	261,719	1,216,055	9,986,207	104,933	-	9,947,599	38,609	-

Investments held to maturity

Country	Matures by 2014	Matures between 2013 and 2019	Matures between 2019 and 2024	Matures beyond 2024	Total book value as at 30.09.14	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	4,417,458	3	-	4,417,461	4,702,987	4,702,987		
Other EU Countries	-	3,574	-	-	3,574	3,591	3,591		
Total	-	4,421,032	3	-	4,421,035	4,706,578	4,706,578	-	-

Investments in sovereign debt securities of EU Member States, in terms of book value, represent 77.5% of the Group's total portfolio invested in debt securities, 99% of which regards investment in securities issued by the Italian Government. Around 8.9% of said investments have been allocated to the trading portfolio and 63.1% to the financial assets available for sale portfolio, while 28% has been classified as investments held to maturity.

Around 91% of total exposure is represented by debt securities that mature before 2019.

Net Interbank Position

Due from banks (in thousands of euro)	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due from central banks	593,381	12.9%	1,190,564	31.7%	(597,183)	(50.2%)
Due from other banks	4,000,303	87.1%	2,562,663	68.3%	1,437,640	56.1%
Current accounts and demand deposits	748,846	16.3%	517,535	13.8%	231,311	44.7%
Time deposits	1,538,686	33.5%	1,496,297	39.9%	42,389	2.8%
Repurchase agreements	1,374,402	29.9%	214,309	5.7%	1,160,093	541.3%
Debt securities	122,450	2.7%	166,871	4.4%	(44,421)	(26.6%)
Other loans	215,919	4.7%	167,651	4.5%	48,268	28.8%
Total loans (A)	4,593,684	100%	3,753,227	100%	840,457	22.4%

Due to banks						
<i>(in thousands of euro)</i>	30/09/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due to central banks	12,568,449	71.8%	13,695,100	78.7%	(1,126,651)	(8.2%)
LTRO and TLTRO	11,868,120	67.8%	13,693,257	78.7%	(1,825,137)	(13.3%)
Other payables (overnight deposits)	700,329	4.0%	1,843	0.0%	698,486	not significant
Due to other banks	4,933,129	28.2%	3,707,966	21.3%	1,225,163	33.0%
Current accounts and demand deposits	1,212,900	6.9%	791,570	4.5%	421,330	53.2%
Time deposits	1,262,685	7.2%	1,033,407	5.9%	229,278	22.2%
Repurchase agreements	1,016,744	5.8%	849,496	4.9%	167,248	19.7%
Other payables	1,440,800	8.2%	1,033,493	5.9%	407,307	39.4%
Total payables (B)	17,501,578	100%	17,403,066	100%	98,512	0.6%
Mismatch loans/payables (A) - (B)	(12,907,894)		(13,649,839)		(741,945)	(5.4%)
Due to central banks: LTRO and TLTRO	(11,868,120)		(13,693,257)		(1,825,137)	(13.3%)
Interbank balance (excl. LTRO and TLTRO)	(1,039,774)		43,418		(1,083,192)	
Mismatch towards central banks (excl. LTRO and TLTRO)	(106,948)		1,188,721		(1,295,669)	
Interbank balance towards other banks	(932,826)		(1,145,303)		(212,477)	(18.6%)

Net interbank exposure as at 30 September 2014 amounted to 12,908.0 million, compared to the balance of 13,649.8 million at the end of last year. ECB exposure fell following the repayment of LTRO loans of 2.8 billion in the second quarter of 2014, after the cancellation of covered bonds guaranteed by the State, provided as collateral for the LTRO lines of credit of nominal euro 3.1 billion, it then rose by around 1 billion at the end of September 2014, following the disbursement of the first instalment of the TLTRO credit lines, recording a figure of euro 11,868.1 million as at 30 September 2014.

If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to euro -932.8 million, down compared to euro -1,145.3 million as at 31 December of last year.

As at 30 September 2014, the Group continues to have an excellent liquidity profile; eligible assets with the ECB, to date unused, after haircuts amount to euro 17.3 billion, substantially represented by a risk-free portfolio of Italian Government bonds.

Estimates relating to the Liquidity Coverage Ratio (LCR) and NSFR (Net Stable Funding Ratio) significantly surpass the targets currently required by Basel 3, and in particular, are placed respectively above, corresponding to around 100%.

Investments in associates and companies subject to joint control

Investments in associates and companies subject to significant influence and in subsidiaries subject to joint control as at 30 September 2014 amounted to euro 1,036.9 million, compared with euro 1,033.8 million as at 31 December 2013.

The increase recorded in the period of euro 3.1 million includes the impact resulting from the valuation of investments in associated companies using the equity approach, relating to the share of the results recorded by associated companies in the period, which totalled a positive euro 65.1 million, to the reduction of capital of Popolare Vita (euro -51.2 million) and of Avipop Assicurazioni (euro -5.5 million) due to the distribution of dividends and to the decrease in reserves of said companies attributable to the Group of euro -5.3 million.

Note that the book value of equity investments held for sale is shown under "Non-current assets held for sale and discontinued operations"; as at 30 September 2014 the item in question referred to the consolidated book value of the equity investment in Finoa, corresponding to euro 2.6 million.

Property and equipment

<i>(in thousands of euro)</i>	30/09/2014			31/12/2013			% change
	Total	BP Stand Alone	Sub-Italease	Total	BP Stand Alone	Sub-Italease	
Property and equipment used in operations	689,355	688,807	548	709,904	709,074	830	(2.9%)
Property and equipment held for investment purposes	1,330,894	520,471	810,423	1,342,346	523,657	818,689	(0.9%)
Total property and equipment (item 120)	2,020,249	1,209,278	810,971	2,052,250	1,232,731	819,519	(1.6%)
Property and equipment held for sale (item 150)	91,868	20,752	71,116	92,056	20,770	71,286	(0.2%)
Total	2,112,117	1,230,030	882,087	2,144,306	1,253,501	890,805	(1.5%)

The breakdown of property and equipment used in operations is shown in the table below:

Property and equipment used in operations (in thousands of euro)	30/09/2014	31/12/2013
	Book value	Book value
1. Owned assets	688,997	709,549
- land	220,892	223,024
- buildings	388,442	404,443
- other	79,663	82,082
2. Assets acquired under financial lease	358	355
- land	-	-
- buildings	313	322
- other	45	33
Total	689,355	709,904

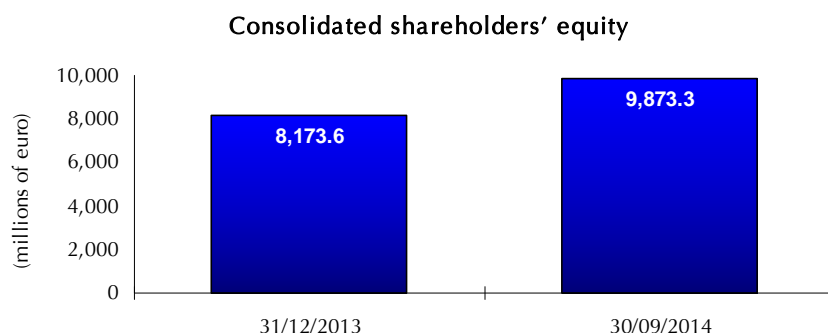
The breakdown of property and equipment held for investment purposes is shown in the table below:

Property and equipment held for investment purposes (in thousands of euro)	30/09/2014		31/12/2013	
	Book value	Fair value	Book value	Fair value
1. Owned assets	1,311,203	1,536,641	1,322,579	1,684,461
- land	622,849	641,415	628,491	718,503
- buildings	688,354	895,226	694,088	965,958
2. Assets acquired under financial lease	19,691	19,767	19,767	19,767
- land	11,324	11,324	11,324	11,324
- buildings	8,367	8,443	8,443	8,443
Total	1,330,894	1,556,408	1,342,346	1,704,228

As at 30 September 2014, the total property and equipment held by the Group amounted to euro 2,112.1 million, down by around euro 32 million compared to the end of the previous year. With regards to property and equipment used in operations, the decrease of around euro 20 million is due to the normal process of depreciation. As regards property and equipment held for investment purposes, the decrease of euro 11.5 million breaks down as follows: euro 17.6 million is due to value adjustments made on several investment properties to align their book values with the recovery value estimated on the basis of the most recent appraisals received, net of the acquisition of property worth a total of euro 12.2 million by the subsidiary company Release, following settlements of contracts in litigation.

As regards property and equipment held for sale, as at 30 September 2014 this item included euro 91.9 million of property and equipment (substantially stable with respect to 31 December 2013), euro 71.1 million of which relates to the former Italease group (most of which regards properties resulting from credit collection activities) and euro 20.8 million to the rest of the Group (of which euro 18 million to the subsidiary Sviluppo Comparto 8).

Shareholders' equity and solvency coefficients



The Group's consolidated shareholders' equity as at 30 September 2014, including valuation reserves and net income for the period, amounted to euro 9,873.3 million, compared to the figure at the end of 2013 of euro 8,173.6 million. The change of euro 1,699.7 million observed in the period is mainly due to the share capital increase finalised in April, which led to the recognition of an increase of shareholders' equity, net of directly attributable costs, of euro 1,459.4 million. Banco Popolare's share capital also reflected the impact resulting from the completion of the incorporation of Credito Bergamasco into the Parent Company, which entailed the issue of 19,332,744 new ordinary shares allocated to

Credito Bergamasco shareholders, for a total counter value of euro 300.6 million, at a swap rate of 1.412 ordinary Banco Popolare shares for each ordinary Credito Bergamasco share presented.

During the period, the impact of the redemption of the Banco Popolare 2010/2014 4.75% convertible bond issue, which matured on 24 March, was recognised, resulting in the deduction of euro 9.1 million from the Group's shareholders' equity.

Lastly, the comprehensive income recorded in the period, in terms of the share pertaining to the Group, was a negative euro 38.8 million. The latter includes the loss for the period of euro 121.7 million, and the increase of valuation reserves of euro 82.9 million.

The following table shows the breakdown of valuation reserves and the changes over the period:

<i>(in thousands of euro)</i>	Financial assets available for sale	Property and Equipment	Cash flow hedges	Special revaluation laws	Actuarial gains/(Losses) on defined benefit pension plans	Investments in associates carried at equity	Total
Initial balance	134,090	217	(5,860)	2,314	(39,055)	(8,210)	83,496
Increases	309,370	-	2,183	-	12,089	13,402	337,044
Decreases	(194,552)	-	(775)	-	(35,738)	(19,187)	(250,252)
Final balance	248,908	217	(4,452)	2,314	(62,704)	(13,995)	170,288

The change in the reserve of financial assets available for sale with respect to last year is mainly due to debt securities, particularly those of the Italian Government.

As regards investments in associates and companies subject to joint control carried at equity, the changes refer mainly to the net reduction of euro -11.2 million in the valuation reserve for financial assets available for sale and the valuation reserve for securities of the separate portfolios of Popolare Vita and to the increase of the reserve resulting from cash flow hedges of the subsidiary company Energreen of euro 4.7 million.

The following table provides a reconciliation between the Parent Company's shareholders' equity and net income (loss) for the period with the corresponding consolidated balances.

<i>(in thousands of euro)</i>	Shareholders' equity	Net income (loss) for the period
Balance as at 30/09/2014 as per the Parent Company's financial statements	8,380,208	(190,268)
Impact of the consolidation of subsidiaries	1,274,112	55,132
Impact of the valuation at net equity of associated companies	63,664	66,456
Cancellation of the dividends received during the year from subsidiaries and associates	-	(57,051)
Other consolidation adjustments	155,284	3,985
Balance as at 30/09/2014 as per the consolidated financial statements	9,873,268	(121,746)

Capital ratios

With regard to the measurement of risk-weighted assets, note that the Banco Popolare Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements, based on the provisions of the Bank of Italy, established in Circular no. 263 of 27 December 2006 ("New prudential supervisory provisions for banks") supplemented with subsequent amendments. The model applies at individual level to Banco Popolare Soc. Coop.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements, based on the provisions of Circular no. 263 cited above. The model applies at individual level to Banco Popolare Soc.Coop. and to Banca Aletti S.p.A.;
- internal model to measure operating risk. The model applies at individual level to Banco Popolare Soc.Coop., to Banca Aletti S.p.A., to SGS Soc. cons., and to BP Property Management Scarl.

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU (CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.

The Regulation and the relative technical standards are directly applicable to national legislation and constitute the so-called "Single Rulebook".

As part of the overall process to revise and simplify the regulations for banking supervision, on 17 December 2013, the Bank of Italy published the new circular 285 (“Supervision provisions for banks”) which almost completely replaces the previous circular 263 of 27 December 2006 (“New prudential supervisory provisions for banks”).

On the same date, the Bank of Italy also regulated prudential supervision reporting on an individual and consolidated basis for banks and asset management companies, by virtue of the new circular 286 (“Instructions for preparing prudential reports for banks and asset management companies”) which fully replaces, for banks, the previous circular 155 (“Instructions for preparing reports on regulatory capital and prudential ratios”).

More specifically, Circular 286 sets out reporting formats regarding:

- 1) harmonised reports: own funds, credit and counterparty risk (including securitisations, Credit Valuation Adjustment e Central Counterparties (CCP)), market risk, operating risk, large exposures, recognition of mortgage losses, overall equity position, liquidity monitoring and financial leverage;
- 2) non-harmonised reports: related parties.

Following these important legislative changes, the capital ratios as at 30 September 2014 are not comparable to those that refer to 31 December 2013.

Note that the new regulations contained in the Single Rulebook envisage a period of transition for the gradual introduction of several new rules (s-called “phase-in”). The estimates of capital ratios that the Group is assumed to have at the end of the transition period are called “Basel 3 Fully Phased”.

The minimum capital requirements for 2014 resulting from regulations that are currently in force are:

- a minimum common equity tier 1 ratio (Common Equity Tier 1 capital ratio: “CET1 ratio”) of: 4.5% + 2.5% Capital Conservation Buffer: “CCB”;
- a minimum Tier 1 capital ratio of: 5.5% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

Applying the transition regime in force at the end of September 2014 and calculating Own Funds taking into account the share of the economic result since the beginning of the year, the Common Equity Tier 1 ratio (CET1 ratio) is 13.7%. Considering that the instruments to be included in Additional Tier 1 Capital, subject to grandfathering, are offset by the elements to be deducted, the Tier 1 ratio is also 13.7%. The Total Capital Ratio instead is 16.5%.

As at 30 September 2014, the Group therefore fully complies with the above-cited capital requirements.

As already mentioned, the Group’s equity position has been considerably strengthened by the share capital increase, by the change to the use of internal models to measure operating risk and by the merger by incorporation of Credito Bergamasco into Banco Popolare.

The pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transition period (so-called CET1 ratio fully phased) will be 11.7%.

Communication regarding the prudential filters of the “Assets available for sale” portfolio

With effect from 30 June 2010, the Group had adopted the approach envisaged by the Bank of Italy Provision dated 18 May 2010, which allows the share of valuation reserves relating to debt securities issued by the central government authorities of countries belonging to the European Union, held in the “Financial assets available for sale” portfolio to be excluded from the calculation of the regulatory capital.

More specifically, in alternative to the “asymmetrical” approach (complete deduction of net losses from Tier 1 capital and partial inclusion for the 50% of net gains in Tier 2 capital) already envisaged by Italian legislation, the above-mentioned Provision had acknowledged the possibility of fully neutralising the gains and losses recorded in revaluation reserves (“symmetrical” approach). This option must be extended to all the securities of the type held in the aforementioned portfolio, it must be applied consistently by the Group and maintained constant over time.

In this regard, we announce that, pursuant to the issue note for the new Circular 285, we have confirmed this option. This option shall remain in force until the European Commission adopts new regulations approving the application of IFRS 9 in substitution of IAS 39.

As at 30 September 2014, the change in the reserves of the securities issued by Central Government authorities of countries belonging to the European Union was a positive euro 95 million; if this approach is not adopted, said change would have resulted in an increase of around euro 47.5 million in the Tier 2 capital, in the presence of overall positive reserves on debt securities which could be calculated for only 50% according to the transition regime introduced by (EU) Regulation no. 575/2013 of the European Parliament and Council (“CRR”) and implemented with the Bank of Italy circular no. 285 of 17 December 2013.

Results of the Comprehensive Assessment exercise: impact on the accounts (Disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)

As indicated in the section reporting the main events following the end of the third quarter, on 26 October 2014, the Supervisory Board and the Governing Council of the ECB approved the Final Report and Results of the Comprehensive

Assessment exercise. Said exercise was conducted by the ECB in collaboration with national supervisory authorities, before the same takes on full responsibility for the supervision of banks as part of the Single Supervisory Mechanism, and is organised into the following steps:

- Asset Quality Review (AQR) on accounting data as at the end of 2013, which entailed a review of asset quality and verification of the adequacy of valuations of the same, as well as of guarantees and relative provisions;
- Stress Tests, conducted in close collaboration with the European Banking Authority (EBA), which looked how bank balance sheets hold up under stress. The results of the Stress Test reflect the impact of the application of two set scenarios, called “baseline” and “adverse”, which do not entail forecasts on future financial performance or on the expected capital ratios of the banks in question.

The Group passed the exercise with flying colours, due to measures taken in the first half of 2014 to strengthen its equity base.

As specified by the ECB in its "Aggregate Report on the Comprehensive Assessment", the Comprehensive Assessment represents an exercise whose purpose is prudential supervision, and not an exercise aimed at verifying whether accounting principles have been applied when preparing financial statements. This means that the results of the Comprehensive Assessment are not directly reflected in the financial statements of the banks that participated in this exercise. While this conclusion is extremely clear in terms of the results of the stress test, comprehension as to the results of the part of the exercise called the Asset Quality Review, is less immediately obvious. Even with specific reference to the latter, the ECB has however been very clear, when confirming that, as part of a series of approaches permitted by accounting standards, so-called “ECB thresholds” were established for the purpose of the exercise, intended to be univocal guidelines, privileging the adoption of stricter valuation parameters, with a view to being prudent. In this regard, the ECB stated in its report that it doesn't expect these “ECB thresholds” to be necessarily used for the preparation of financial reports, leaving it up to the individual bank to decide whether said adjustments should, in full or in part, be reflected in the financial statements¹.

Given the above, with a view to guaranteeing adequate and harmonised disclosure as to the impact of the Comprehensive Assessment on financial statements, on 7 November 2014, Consob sent a request to all participating banks to include the information illustrated below in the interim report on operations as at 30 September 2014.

Considerations regarding the existence of any impact on the accounts of the results of the Asset Quality Review

The results of the Asset Quality Review conducted on Banco Popolare, published by the ECB on 26 October 2014, show total adjustments made to Common Equity Tier 1 Capital as at 31 December 2013 of euro 1,603 million before tax (euro 1,080 million after tax) broken down as follows:

Details of the results of the Asset Quality Review: impact of adjustments to Common Equity Tier 1 Capital identified as at 31 December 2013	
<i>amounts shown in millions of euro</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
Net total impact of AQR results on CET1 Capital	1,080.08

Credit exposure – Adjustment to provisions on sampled files

Adjustments amount to euro 451.2 million and are the result of an analysis conducted by the Supervisory Authorities on a sample of loans selected by the same, represented by around 900 positions (so-called Credit File Review). The sample was selected with reference to 4 portfolios regarding corporate customers only, more specifically: 1) Real Estate Related positions with a total exposure of euro 18.2 billion; 2) Large SME non real estate positions with a total exposure of euro 18.5 billion; 3) SME positions with a total exposure of 12.9 billion; 4) Large Corporate non real estate positions with a total exposure of euro 11.7 billion.

A detailed analysis of the results of the Credit File review by position was provided to the bank on 6 November 2014. We were only able to start analysing the adjustments made by the Supervisory Authorities from this date. The

⁽¹⁾“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.”

adjustments made are classified by the ECB, almost entirely as adjustments due to the use of the “ECB Thresholds” and as such do not have a direct influence on the accounts. The amount of the adjustments calculated as misalignments with respect to accounting rules is very marginal (euro 3.5 million). A further euro 36 million must be added to this figure, which the Supervisory Authority considers as originated both from the adoption of ECB Thresholds and from misalignments with respect to accounting rules, without, however, providing the separate impacts of the same. If the details of the adjustments provided by the Supervisory Authority are compared with the adjustments already made to the income statement, it can be seen that euro 262.8 million of the latter refer to the same exposures adjusted following the Credit File Review.

Given that the value adjustments identified by the Bank reflect its independent valuations consequent to changes in individual positions, and that the adjustments indicated by the ECB, in addition to reflecting additional prudential prescriptions, also took into account information that was not available at the time the financial statements as at 31 December 2013 were prepared, in compliance with that envisaged by IAS 8 for changes in estimates, no adjustments were made to the opening balances of the balance sheet as at 1 January 2014.

Credit exposure - Provisions due to projections of findings

The adjustments amount to euro 509.6 million and are the result of a projection of the findings emerging from the Credit File Review on a total population of 4 loan portfolios. These projections are exclusively statistical and therefore the adjustments in question do not have a direct impact on the accounts and as such have no influence on the interim report on operations as at 30 September 2014.

Credit exposure - Adjustment to provisions due to collective provisioning review

The adjustments amount to euro 600.1 million, and result from the application of benchmark models (so-called Challenger Model) to collective valuations of performing loan portfolios (estimated to correspond to around euro 200 million for corporate and retail customers) and to analytical valuations of the loans in default portfolio, relating to SME retail customers, that were not covered in the Credit File Review (estimated to be euro 400 million). The characteristics of the Challenger Model used by the Supervisory Authorities are described in detail in the Asset Quality Review Manual. It is a standardised quantitative model, which seeks to guarantee that standard criteria are applied by the Supervisory Authorities to all of the banks participating in the exercise. This model is also based on assumptions that refer to information mainly relating to 2013. This “point in time” approach is particularly prudent with regard to the specific situation of Banco Popolare, if we consider the fact that in 2013, the credit valuation process was impacted both by the economic recession and by inspections conducted by the National Supervisory Authority before the start of the Comprehensive Assessment. It should also be noted that the internal model used to calculate value adjustments on collective receivables adopted by Banco Popolare is based on an internal rating system validated by the national Supervisory Authority as of 30 June 2012. In the light of these considerations, we retain that the adjustments in question do not have a direct impact on the accounts and as such have no influence on the interim report on operations as at 30 September 2014.

Credit value adjustment

The adjustments amount to euro 10.6 million and are the result of the application of a benchmark model (so-called CVA Challenger Model). At the date of preparation of this report, the ECB had not provided any details on the above-mentioned adjustments, and therefore we cannot verify whether the same are reflected in the valuations of exposures relating to derivative contracts in force as at 30 September 2014, used to draw up the report.

Investment in Private Equity and participations - Adjustment related to fair value review

The adjustments amount to euro 11.5 million and are assumed to result from the fair value measurement of the investments included as part of financial assets available for sale made by the Supervisory Authorities as part of the exercise. At the date of preparation of this report, the ECB had not provided any details on the above-mentioned adjustments, and therefore we cannot verify whether the same partially coincide with the impairments deducted from the income statement for the first nine months against the above-mentioned assets amounting to euro 11.0 million. Said impairments result from the ordinary process following to update valuations conducted by the bank and are recognised in the accounts as changes in estimates pursuant to accounting standard IAS 8.

Investment Properties/Real Estate/Other – Adjustment related to fair value review

The adjustments amount to euro 19.9 million and are assumed to result from a review of the fair value measurement of owned property held for investment purposes. At the date of preparation of this report, the ECB had not provided any details on the above-mentioned adjustments, and therefore we cannot verify whether the same partially coincide with the impairments deducted from the income statement for the first nine months against the above-mentioned assets amounting to euro 17.6 million. Said impairments also result from the ordinary process following to update valuations conducted by the bank and are recognised in the accounts as changes in estimates pursuant to accounting standard IAS 8.

Results of the assessment of accounting procedures conducted as part of the Asset Quality Review (“PP&A – Processes, policies and Accounting review”)

On the basis of feedback received from the Supervisory Authorities following the “PP&A – Processes, policies and Accounting review”, the only explicit request regards the area of exposures. More specifically the recommendations provided to Banco Popolare regard exposure management processes with particular reference to extended payment terms and other forbearance measures granted to small and medium customers, which characterises the lending business in Italy. In this regard, the bank was asked to align the definition of forborne exposures to that currently used in the guidelines published by the EBA.

Considerations regarding any impact of the classification and valuation criteria adopted in the AQR on the provisioning of exposures

With regard to the exposure classification process, in compliance with the request made by the ECB illustrated above, analysis is currently underway of new regulations and in particular of the definitions of “Non performing Exposures” and “Forbearance” contained in the Implementing Technical Standards published by the EBA but not yet approved by the European Commission as at the date of this report. More specifically, a specific policy is currently being drawn up, with a view to establishing the principles and the criteria to adopt at Group level to classify Forborne exposures (exposures to parties who are facing financial difficulties, to whom the bank has conceded some measure of tolerance), whether they are “Restructured exposures” (forborne non performing), or “Other exposures subject to concessions” (forborne performing). The Policy will also establish the principles and the criteria requested to change the Forborne classification status.

With regard to the assessment of exposures, beyond the considerations illustrated above, there is no doubt that the exercise conducted as part of the Comprehensive Assessment provides a series of new recommendations which must be taken into consideration by the banks and which could lead company directors to assess the opportunity of intervene on the credit assessment processes ordinarily applied, by adopting, within the range of approaches relating to the estimation processes permitted by the reference accounting standards, assessment parameters that are partially different to those currently used, and more in line with those adopted by the ECB and by the national Supervisory Authorities when conducting the Asset Quality Review. The Bank has therefore launched a process to analyse the results of the Asset Quality Review as a whole. The assessment launched entails an in-depth assessment of the compatibility of the prudential criteria applied under accounting standards, evaluating the opportunity of a greater alignment of the underlying parameters in the light of continual developments in the economy and the market. The analysis will be completed in good time for the preparation of the end-of-year financial statements, and any impact resulting from decisions that may be made will be recognised in the accounts in the fourth quarter of the year.

RISK MANAGEMENT

General principles

The Banco Popolare Group implements processes for the selection, undertaking, governance and mitigation of the risks originated by banking and financial activities to pursue stable and sustainable growth objectives over time, in line with the general policies established by the Board of Directors and disciplined, inter alia, by the “Group Risk Regulations”.

As regards said policies, the following are of particular note: the distribution of credit risk, in line with the objective of mainly lending to small and medium enterprises and retail customers, market risk-taking in relation to commercial requirements as well as to property investment opportunities, close monitoring of liquidity for the purpose of ensuring the ability to promptly deal with expected and unexpected financial requirements as well as the exclusion of risks unrelated to core business activities.

The entire process to manage and control the risks that the Group is exposed to is coordinated by Banco Popolare, in its dual capacity as Parent Company and entity in which all the functions of mutual interest to the Group are located. This process operates at different levels of the organisational structure.

The Board of Directors of the Parent Company has a fundamental role in the management and control of risk, at Group level, as it decides the strategic direction, approves risk management policies and assesses the level of efficiency and adequacy of the system of internal controls, also with the support of specific Committees, including the Committee for Internal Control and Risks, established within its ranks and, with specific tasks relating to the processes of taking, managing, measuring and controlling risks, the Risks Committee, the Finance and ALM Committee and the Committee for Innovation.

The risk management function is carried out by the Risks Department through the Risk Management Service located at the Parent Company Banco Popolare, which has direct access to the corporate bodies. The Risks Department, the organisational unit that reports directly to Banco Popolare’s Managing Director, oversees, at Group level and in an

integrated way, risk management, measurement and control processes, compliance risk, the process of validating internal risk measurement models and the legal support and advisory process for the Parent Company and for Group Companies.

At least on a quarterly basis, the Group assesses its capital adequacy using management-type risk measurement tools, primarily based on statistical-quantitative methodologies related to the VaR (Value at Risk) technique. The same techniques are used, both for current analyses and for forecasts, to produce the ICAAP (Internal Capital Adequacy Assessment Process) Report, sent annually to the Bank of Italy.

With reference to the Third Pillar Disclosure to the public, from 1 January 2014, the prudential supervision provisions applicable to banks are stated in Circular 285 of 17 December 2013, the issue of which is dependent on the start of application of European Union legislation (CRR Regulation EU no. 575/2013 and CRD IV Directive 2013/36/EU) which contain the reforms of the Basel Committee agreements (“Basel 3”). As specifically mentioned in Part II - Chapter 13 of the above-cited Circular, this area is directly regulated by the CRR (Part Eight and Part Ten, Heading I, Chapter 3) and by European Commission regulations regarding technical standards for regulation or implementation.

In particular, according to that established by CRR Regulations, banks must publish the information required at least once a year. Also as regards obtaining the authorisation of the Supervisory Authority (notice dated 18 May 2012) for the use of internal methods to calculate capital requirements for credit and market risk, the Group intends to confirm, for the current year, that it will continue to draw up interim reports, at the same time complying with the guidelines that will be, from time to time, provided by the EBA - through the “technical standards for implementation” - with a view to establishing harmonised reporting models.

The Public Disclosure documents (Third Pillar) are made available on the website www.bancopopolare.it in the investor relations section.

The Internal Project

On 18 May 2012, Banco Popolare received the authorisation of the Supervisory Authority for the adoption of its own internal models for the regulatory measurement of credit risk and market risk for figures as at 30 June 2012.

In the provisions of its authorisation, the Supervisory Authority indicated the minimum consolidated level of capital requirement against First Pillar risks, which may not be lower than 85% (floor) of the standard capital requirement calculated according to the Supervisory Instructions for Banks in force up until 2006 (so-called “Basel 1”).

In terms of **credit risk**, the authorisation regards the advanced internal rating models (PD, for both monitoring and acceptance, and LGD) regarding loans to corporate and retail customers of Banco Popolare and Credito Bergamasco.

The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation A-IRB, including those relating to Banca Aletti and to former Banca Italease Group companies.

In 2013, Banco Popolare concluded that expressly requested by the Supervisory Authority in the letter authorising the use of internal models, by introducing, as of December 2013, a new rating scale, thus eliminating the previous dual system of a Master Scale and Local Scales and the LGD within approval processes.

In addition, a plan for the development of internal rating models has been prepared and submitted to the Supervisory Authority relating to the segments and companies that have not been included in the scope of validation. The exposures included in the Roll Out are specifically:

- PD and LGD models: with regard to Banca Aletti, the release of both the PD model (for “first acceptance” and under monitoring) and the LGD model is envisaged by 2015, while as regards the companies of the former Italease Group, the release of the PD model (for “first acceptance” and under monitoring) and the LGD one is envisaged by 2017;
- model to estimate “Exposure at Default” (EAD): the release of the model for all Group banks (Banco Popolare, Banca Aletti, companies of the former Italease Group - Banca Italease and Release) is envisaged from 2016 and not beyond 2017;
- credit exposures towards supervised intermediaries: the release of PD, LGD and EAD models for Banco Popolare, Banca Aletti and the former Italease Group is envisaged by the end of 2017.

More specifically with reference to third point above (credit exposures towards supervised intermediaries) the release of PD and LGD models for the perimeter including Banco Popolare, Banca Aletti and the former Italease Group has been brought forward to by the end of 2015.

As regards **market risk** the Banco Popolare Group has obtained the authorisation of the Supervisory Authority to use an internal model to calculate capital absorption for the trading portfolios of Banca Aletti and of the Parent Company. The scope of application is the generic and specific risk of equity instruments, the generic risk of debt securities and the risk relating to UCIT units. The remaining market risks will continue to be measured using the “standard” approach and a Roll Out is not envisaged.

As regards **operating risk**, in the second half of 2012, a project called “Operational Risk - AMA” was launched, with a view to adopting, at consolidated level, the AMA method for the calculation of capital requirements for operating risk. In 2013 and in the first six months of 2014, in line with internal planning - the Group carried out the various measures to develop the AMA risk management and measurement framework, as shown below:

- improving the decentralised operating risk management system by introducing “new” specialist positions (ORM contacts) in charge of local management in Central Departments and the Commercial Network;
- the definition and implementation by the Human Resources Department, in collaboration with Risk Management and Group Organisation, of an important training project to enhance awareness on the governance and mitigation of operating risk, in the form of targeted and dedicated sessions involving all Group personnel and, in particular, the persons (ORM contacts and coordinators, Business Area and Central Office Managers) most directly involved in core risk governance processes;
- rationalising the processes used to collect internal loss data from the Commercial Network and Central Departments, and making the same more efficient, also by adapting the IT infrastructure and through special training courses for the personnel involved in reporting and validation processes;
- the introduction of several innovations to methods relating to the Risk Self Assessment process, which is conducted using a set of questionnaires given to business owners, with a view to assessing the Group’s future exposure to operating risk, as well as conducting two RSA campaigns;
- activation of the Continuous Risk Assessment process (CRA), to investigate and assess the exposure to operating risk, specifically referring to the development of the internal and external operating scenarios and the vulnerable areas relating to the most significant operating risk events;
- the review, again for the purpose of configuring the overall risk management framework, of the Internal Regulations of the Operational Risk Measurement and Management System, and the adjustment of the related process regulations;
- the finalisation of management and operational reporting, with the aim of providing detailed information on causal factors, on drivers and on trends of operating losses, in particular to provide support to the assessment and implementation of the appropriate measures to mitigate risk;
- the strengthening of the AMA calculation model through the adoption of solutions based on principles that are simple to apply, transparent, use robust and conservative methods, adopting familiar statistical tools that are widely used in literature and that are not discretionary;
- the expansion of the IT architecture with a view to achieving the integration of all functions to store and process operating loss data.
- The level of development achieved by the Group in the management of operating risk, as a result of the above-cited measures implemented, therefore enabled it to obtain the approval of the Bank of Italy, on 05 August 2014, for the use of advanced supervisory methods (AMA – Advanced Measurement Approach), from the Supervisory Report dated 30 June 2014 for Banco Popolare companies (including the former subsidiary Credito Bergamasco that was recently incorporated), Banca Aletti, SGS BP and BP Property Management. The other Group companies will adopt the BIA (Basic indicator approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use). In this regard, the Group has agreed with the Bank of Italy to extend the use of AMA methods (roll-out plan) to Aletti Gestielle S.g.r. and Banca Italease, based on a gradual extension plan, which is expected to be completed in December 2015.

The governance of risks via the system of limits/objectives

Within the Group, the operational undertaking of corporate risks is disciplined by the system of risk limits/objectives. With the exception of liquidity risk (for which a “maturity ladder” is used), the limits are defined in terms of VaR (Value at Risk) and represent the maximum level of potential losses which it is believed can be sustained on a consistent basis with the risk-return profile chosen by the Group. Responsibility for observance of each limit is assigned to specific corporate functions/bodies which govern the operational leverages and determine the dynamics of the risks.

This system breaks down as follows:

- an overall risk limit, measured with reference to all significant risks the Group is exposed to;
- limits for the main types of Group risks (credit risk, counterparty risk, market risk, operating risk, interest rate risk on the banking portfolio and liquidity risk);
- maximum loss limits applicable to market risk;
- prudential limits for risk assets with related parties.

The specific limits for each type of risk are also structured into detailed sub-limits which refer, according to the type of risk, to the individual legal entity, to portfolios (retail and corporate) to positions in debt securities (accounting portfolios: financial assets designated at fair value through profit and loss - CFV, financial assets available for sale - AFS, investments held to maturity - HTM, loans and receivables - L&R), to aggregated operations (OTC financial and credit derivatives, other transactions) and to the areas of operations (human resources, procedures, processes and systems and external factors). This categorisation complies with the need to allow improved monitoring and to a more efficient handling of risks by the parties responsible. Accordingly, the limits undertake operational leverage validity as well.

With regard to the liquidity risk, the exposure limits are defined by means of the structure of the maturity ladder, where the future cash flows generated by the expiry of the financial and loan brokerage transactions are placed within the corresponding time brackets. Net requirements are established by means of the algebraic sum of expected in- and out-flows of liquidity. The purpose of liquidity risk limits is to verify the ability of available liquid reserves to ensure

coverage of net liquidity requirements. Maximum limits are also envisaged for the concentration of funding by counterparty and wholesale source.

The system of limits (overall and specific) is also supported by detailed operational limits, specific to risk type, which envisage the use of statistical and traditional indicators (e.g. sensitivity and stop loss limits), calculated with reference to given organisational units (e.g. the Investment Bank desks that manage market risk) or specific operating areas (e.g. limits relating to the financial risks of foreign banks), as well as clearly identified risk components (e.g. the risk of concentration of exposures within credit risk).

It should also be noted that with reference to that envisaged in Heading V, Chapter V of Circular 263/2006 “New prudential supervisory provisions for banks”, as of December 2012, the Group has adopted a system of limits for propensity to risk, relating to its risk exposure towards Related Parties (company representatives, subsidiaries or companies subject to significant influence, relative related parties). From the date of entry into force of Circular 285 (1 January 2014), the above-cited Title V - Chapter V of Circular 263 will continue to be effective and be applied.

The process to establish the overall system of limits entails continuous verification and review/recalibration at least on an annual basis, at the same time as the review of the strategic plan and/or as the formulation of the new budget, as well as in the case of events able to substantially change exposure to risk and/or available capital.

More specifically, as part of the efforts to comply with new prudential supervisory provisions for banks (15th update dated 2 July 2013 of Bank of Italy Circular no. 263/2006), the Group has identified the measures to adopt and the relative timeframe to ensure full compliance with legislative requirements regarding RAF (Risk Appetite Framework). The measures will be implemented during the second half of 2014, as regards those used for the RAF and several aspects of particular importance of the relative management process.

Credit risk

The Banco Popolare Group pursues lending policy objectives that seek to:

- support the growth of the business activities operating in its market territories, with a strong customer relationship focus on small and medium sized companies, as well as on retail customers;
- diversify its portfolio, limiting loan concentration on single counterparties/groups, on single sectors of economic activity or geographical areas;
- adopt a uniform credit management model based on rules, methods, processes, IT procedures and internal regulations harmonized and standardised for all Group banks and companies.

With the aim of optimising credit quality and minimising the global credit risk cost for both the Group and the single companies, under the organisational model the Parent Company's Loans Department is in charge of loan policy guidelines for both the banks and companies of the Group.

The credit portfolio monitoring, carried out by the afore-mentioned Department, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level.

Guidelines have also been set at Group level, defining how to behave with respect to credit risk-taking, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.

The role of the Risk Management Service within the Risks Department is to provide support to Top Management in the planning and control of risk exposure and capital absorption, with a view to maintaining the stability of the Group, checking capital adequacy forecasts and compliance with the Group's risk limits and propensity to risk.

More specifically, the Risk Management Service's task is to develop, manage and optimise internal rating models (First Pillar), the loans portfolio model (Second Pillar) over time, and to supervise - as part of second level controls - the calculation of weighted risk assets using advanced methods.

In particular, with regard to credit risk estimation models, in the first half of 2012, the Group obtained the authorisation of the Supervisory Authority for the use of “Internal Rating Based” (“IRB”) methods.

Portfolio risk monitoring is based on a default model that is applied on a monthly basis mainly to credit exposures of the Banco Popolare Group, with regard to performing loans, cash loans and endorsement credits, of resident customers. This model allows operating capital absorption to be estimated, taking into account the portfolio concentration and the assumption of a joint default of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year.

Credit quality

The Banco Popolare Group makes use of an elaborate set of instruments to monitor credit portfolio quality. Internal ratings are an important part of this. Their calculation is based on models that are differentiated and estimated specifically for each customer segment (large corporate, mid corporate plus, mid corporate, small business and private customers).

Rating plays a key role in loan granting, monitoring and management processes. In particular, it plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to guiding the decisions of loan managers when classifying positions based on their performance.

Special dedicated units within the Group are in charge of managing non performing loans, which operate by means of predefined management and recovery method that differ depending on the type of loan by amount and risk profile.

Non performing loans are classified according to specific criteria, based on prudence, and objective risk parameters. In general, non performing loans include loans that give rise to a severely abnormal evolution of the business relations between the customer and the Group banks, serious irregularities found in the reports to the Central Credit Register, a worrying situation of financial accounts, the onset of adverse events that may restrict the creditworthiness, decrease the value of the guarantees or impair the loan.

Value adjustments are measured on an individual basis for each single position, they are based on the criteria of prudence in relation to the possibilities of actual recovery, also related to the existence of any collateral and they are regularly verified.

In the first quarter of 2014, the regulatory framework regarding the classification of non performing loans was partially revised, with a view in particular to guaranteeing the prompt adjustment of value adjustments.

The situation of the Group's non performing loans as at 30 September 2014 has already been illustrated in the previous section, which commented on the Results for the period.

With regard to the future development of credit risk, there continues to be a situation of uncertainty as to the evolution of the economic scenario. This situation makes it difficult to predict the evolution of the risk in question.

With regard to the process of integration of the former Banca Italease Group, there has been a constant commitment, in terms of managing the portfolio of loans in default, reducing risk and focusing particularly on those of a high amount (so-called large risks).

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk (AIRB system), the Banco Popolare Group adopts internal estimates of Probability of Default (PD) and of Loss Given Default (LGD) for Corporate and Private Customer portfolios.

The comparison between estimates and empirical data is made separately for PD on a six-monthly basis at least, for LGD on an annual basis, by means of backtesting conducted by the Internal Validation service.

With regard to PD models, the Banco Popolare Group adopts performance measures to verify the discriminatory range of the estimates (accuracy ratio-AR) and calibration tests ("classic" binomial tests and binomial tests "adjusted" to take into account the cyclical nature of the macroeconomic scenario in question) to compare default rates (DR) over an annual time horizon with estimated PD values.

As regards the Corporate segments, the latest backtesting exercise showed a good discriminatory range of models, both in terms of single modules and final ratings, which produced values comparable and at times superior to those obtained in development.

With regard to the calibration, satisfactory values were found for the Large Corporate model. In the "classic" binomial test, the Mid Corporate, Mid Corporate Plus and Small Business segments show a number of non calibrated classes substantially in line with that found as at June 2012, while in the "adjusted" binomial test, they showed a slight deterioration which can mainly be attributed to the severity of the current economic cycle.

As regards the Private customer segment, the model performed well overall. In a number of modules, better performance than obtained during development was recorded; on the contrary, a deterioration in performance for the sociological module and the acceptance function was recorded. As regards the calibration tests, the results were satisfactory and in line with that observed in the previous backtesting exercise, with acceptable values (albeit slightly worse) if the average PD for the class and the default rates observed are compared, and if the effects of the current economic crisis are incorporated in the estimates.

Counterparty Risk

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (*EU Regulation no. 575/2013*). As regards this type of risk, for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Group uses internal methods to estimate unexpected losses resulting from the possible default of counterparties in OTC derivative transactions.

These methods are mostly based on statistical-quantitative approaches, partially linked to the techniques used for VaR (Value at Risk) estimates, which assesses the impact that market and credit risk factors may have in terms of unexpected losses on the positive future market value of the overall portfolio of positions in derivatives.

On completion of the first stage of the project aimed to generally reinforce the methods, processes and IT architecture, from June onwards, a Shortcut method was introduced, which has enabled the estimate of exposure to counterparty risk to be improved, with regard to counterparties with whom a "collateral agreement" has been signed (Credit Support Annex – CSA) to guarantee and mitigate risk.

The expected exposure is assessed on the basis of possible changes of the Mark to Market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract.

The new measure has also been implemented to the chain of credit processes for positions held with institutional counterparties guaranteed by "collateral", by reviewing the values agreed and used, and developing tools to support monitoring activities.

The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC plain vanilla derivatives traded by Banca Aletti, enables the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, leading to a reduction of credit facilities to market counterparties with regard to the plain vanilla swaps transferred into LCH;

- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR) ;
- mitigation of operating risk.

In accordance with the Basel 3 Framework Regulation, from 30 June 2014, additional capital requirements regarding the following are to be calculated:

- own funds for the Credit Valuation Adjustment (CVA) through the adoption of the standardised method, as envisaged by (EU) Regulation no. 575/13 for banks that are not authorised to use the IMM method for counterparty risk and the internal model method for Incremental Risk Charge (IRC);
- exposures relating to operations with Qualified Central Counterparties (QCCP) by adopting the Alternative Method envisaged by art. 310 of EU Regulation no. 575/2013.

Financial risks

Trading portfolio

The organisational model adopted by the Banco Popolare Group for the trading portfolios exposed to interest rate risk and price risk requires the centralisation:

- of the management of Treasury and of Proprietary Portfolio positions in Group Finance;
- in the subsidiary Banca Aletti of the risk positions and the operating flows associated with securities, currency, OTC derivative trading and other financial assets. In addition to this, there are the main interest rate risk exposures from the trading portfolio of Banca Aletti relating to operations both on money markets, and the associated listed or plain vanilla derivatives (covered by the Trading & Brokerage Service), both on the markets of listed and OTC derivatives, and OTC structured products (covered by the Structured Products Service).

This model does not include the former Banca Italease Group, as there are no significant positions that may affect market risk. Credit Bergamasco's exposures have been transferred to the Parent Company following the incorporation of the same.

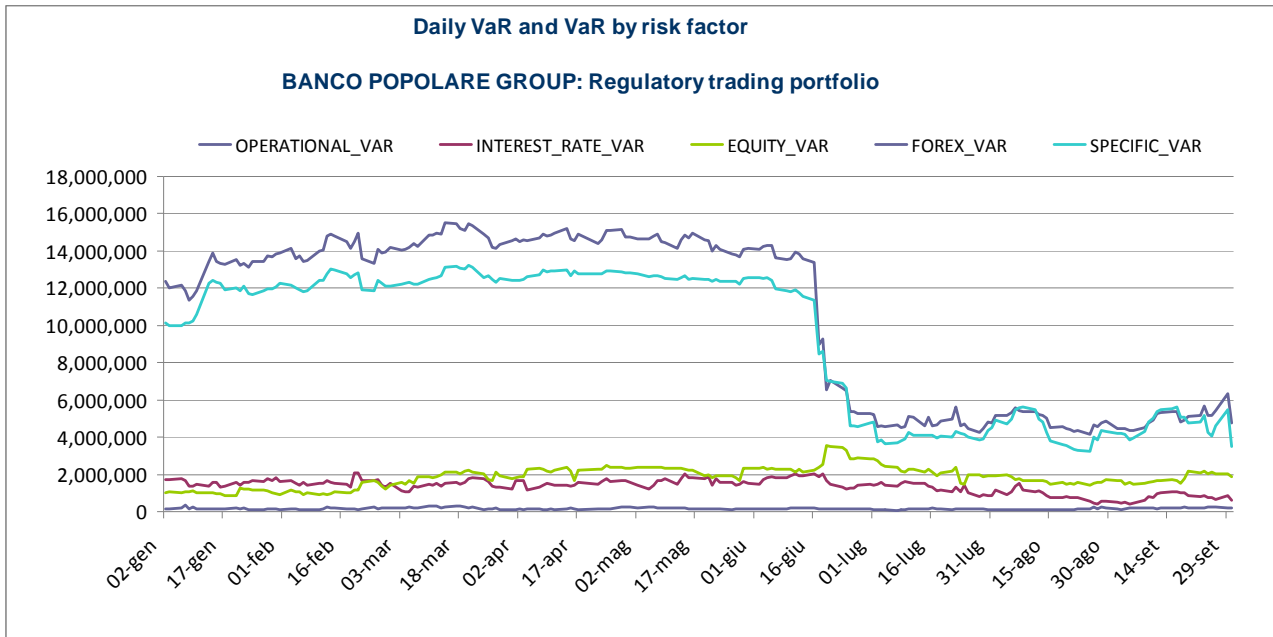
The function in charge of controlling the financial risk management for all the Banks of the Group with the aim of identifying the type of risks, define the methods to measure risks, control limits at strategic level and verify the consistency between trade limits and the risk/return targets assigned is centralised in the Parent Company under the responsibility of the Risk Management Service for all Group banks.

Risk analyses of the Trading portfolio are carried out by means of indicators, both deterministic, such as the sensitivity to market risk factors, and probabilistic, such as VaR (Value at Risk), which measures the maximum potential loss of the portfolio over a certain time horizon and with a given level of confidence.

Risk capital estimates under the VaR approach are made using the historical simulation method and considering a time horizon of one working day and a statistical confidence interval of 99%. A VaR is calculated both by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate more reactive to the most recent changes in market parameters, and by equi-weighting historic observations. If the latter is higher than the VaR calculated with the above decay factor, it is used for risk estimates.

The risk depends mainly on the specific component (issuer risk), relating, in particular to Italian Government bonds, which also justifies performance in the period.

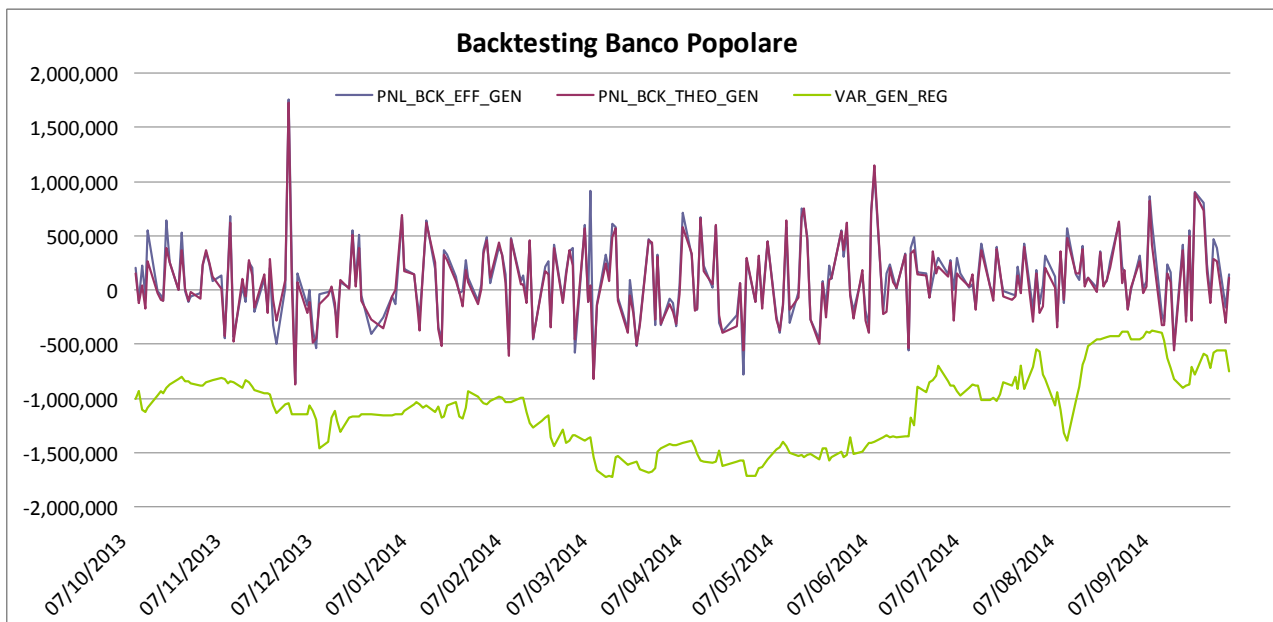
Regulatory trading portfolio (in millions of euro)	Q3 2014			
	30/09/2014	average	maximum	minimum
Interest rate risk	0.599	1.365	2.099	0.399
Exchange rate risk	0.187	0.165	0.369	0.067
Equity risk	1.901	1.853	3.553	0.864
Dividends and Correlations	0.687	0.756	1.193	0.265
Total uncorrelated	3.374			
Diversification effect	-1.519			
Total Generic Risk	1.855	2.312	3.777	1.323
Specific Risk Debt Securities	3.474	9.252	13.212	3.223
Combined Risk	4.773	10.559	15.538	4.159



Following the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading portfolio of Banco Popolare and of Banca Aletti.

The graphs below show the backtesting exercise of Banco Popolare relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk.

For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.



Furthermore, note that at operating level, a risk assessment is conducted on the loss of value of the debt securities of the trading portfolio due to the migration of the credit rating or the default of the issuer using an Incremental Risk Charge - IRC approach.

Banking portfolio

The interest rate risk relating to the banking portfolio is eminently associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and mortgages and funding from demand current accounts represent a fair value interest rate risk, while floating rate financial assets and liabilities represent a cash flow interest

rate risk.

The structure in charge of managing interest rate risk is the ALM, part of the Group Finance Service of the Parent Company, which carries out said task also on behalf of the banks and subsidiary financial companies, and pursues the maximisation of the economic return from the bank's commercial activity in compliance with the set interest rate risk exposure limits.

The Interest Rate and Liquidity Risk unit of the Parent Company's Risk Management Service is in charge of monitoring and controlling the interest rate risk of the banking portfolio, and it performs this activity also on behalf of the banks and financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in interest margin or equity or the economic value of the banking portfolio are complied with, as regards regulatory capital.

Interest rate risk is monitored using Sensitivity Analyses and the parametric Value at Risk method.

The short term indicator, represented by the margin at risk, as at 30 September showed a slightly lower sensitivity to positive changes in interest rates compared to the same period of the previous year; the performance of the medium-long term indicator, represented by the economic value at risk, showed a slight recovery compared to the previous year, due to the very low levels of the interest rate close to zero. Overall, the level of risk in any event continues to be very low.

Risk ratios (%)	30 September	2014 (first 9 months)			2013 (first 9 months)	
		average	maximum	minimum	30 September	average
For shift of + 100 bp						
Financial margin at risk / Financial margin	-1.2%	0.4%	3.0%	-1.2%	2.9%	2.5%
Economic value at risk / Economic value of capital	-1.4%	-1.0%	0.2%	-1.8%	-0.1%	-0.8%
For shift of - 100 bp						
Financial margin at risk / Financial margin	0.2%	-0.2%	0.4%	-0.9%	-1.8%	-1.5%
Economic value at risk / Economic value of capital	-0.8%	-0.2%	0.5%	-0.8%	0.1%	0.7%

With regard to the banking portfolio, the Group also evaluates its exposure to the risk of default and to the migration of the rating class of debt securities, based on IAS standards, classified as AFS, L&R and HTM using an Incremental Risk Charge (IRC) method. Instead, positions classified as CFV are measured using the Value at Risk (VaR) method, using historic simulations.

Operating Risk

Operating risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operating risk also encompasses legal risk, while strategic and reputational risk are not included.

As regards this type of risk, the Group adopted the standardized regulatory approach envisaged by supervisory provisions (combined with the basic method for companies not significant in size) to calculate capital requirements against operating risk up until the report as at 31 March 2014. On 05 August 2014, the Bank of Italy approved the use of advanced supervisory methods (AMA – Advanced Measurement Approach), from the Supervisory Report dated 30 June 2014 for Banco Popolare companies (including the former subsidiary Credito Bergamasco that was recently incorporated), Banca Aletti, SGS BP and BP Property Management. The other Group companies will adopt the BIA (Basic indicator approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use). In this regard, the Group has agreed with the Bank of Italy to extend the use of AMA methods (roll-out plan) to Aletti Gestielle SGR and Banca Italease, based on a gradual extension plan, which is expected to be completed in December 2015.

The AMA capital requirement is determined by combining the risk measurement obtained by the model based on previous operating losses, both internal and external, with that obtained on the basis of the model that uses elements of scenario analyses. Both of the models adopt a modelling approach known as the Loss Distribution Approach, which is based on the modelling of aggregate annual loss, defined as the sum of loss amounts (severity) associated to each loss event that occurs over one year (frequency). The risk is estimated by measuring the Value at Risk with a confidence interval of 99.9% and a time horizon of one year. The capital requirement relating to the AMA scope takes into account any benefits from diversifying exposure to the different types of operating risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss.

For further details on the state of progress of AMA project activities, please refer to the previous section entitled "The Internal Basel 2 Project".

Liquidity Risk

Liquidity risk is generated by the time mismatch between expected cash in- and out-flows even in a very short time horizon. In addition to the difficulty/impossibility of hedging such mismatches, the liquidity risk can also entail an interest rate risk caused by the need to raise/lend funds at unknown rates that could be potentially unfavourable.

The Parent Company's Group Finance Service is in charge of monitoring liquidity risk limits, according to the supervisory measurement system, as a first-level control; the Parent Company's Risk Management Service is in charge of second-level controls, as well as monitoring mismatches of operating liquidity through the Asset & Liability Management procedure, also used to measure the interest rate risk of the banking portfolio.

As regards liquidity risk, at aggregate level, the Group applies a liquidity monitoring system, using both regulatory and operating measurements, which also entails the use of models to estimate behavioural and/or optional parameters. This system is flanked by internal operating thresholds based on stringent levels, monitored on a daily ("quick ratio") and ten-day (operating) basis.

In the first nine months of 2014, the Group's liquidity profile showed substantial robustness, both as regards the short and longer term components.

During the period, the Banco Popolare Group continued to make the standard periodic measurements of the liquidity profile, using the two indicators envisaged by the provisions of Basel 3 and required by the Bank of Italy and by the EBA, according to the strict timeframes envisaged by the regulations (LCR and NSFR), as well as producing the monthly report for the Supervisory Authority on the short term LCR indicator (Liquidity Coverage Ratio) and the medium term one, SF (Stable Funding Ratio), as part of monthly Supervisory Reporting.

Other risk factors

Risks associated with pending legal proceedings

The Banco Popolare Group is involved in numerous legal proceedings associated with the natural unfolding of the business activities. As at 30 September 2014, provisions for legal disputes underway and clawbacks amounted to euro 140.5 million, compared to euro 162.2 million recorded as at 31 December last year.

The main risk positions at Group level relating to Clawback actions and Pending lawsuits are detailed below.

Area S.p.A. dispute.

In July and September 2009, Banco Popolare (and others) were summoned, by means of separate actions brought by two separate groups of former shareholders of Area S.p.A..

In the first proceedings, 42 plaintiffs and 39 other parties requested that the defendants be ordered to pay compensation of euro 19.11 million, on the assumption of an alleged agreement between the former Banca Popolare di Lodi (BPL) S.c.a.r.l. and Banca Intesa S.p.A., which would have led among other things to the exclusion of Area S.p.A.'s minority shareholders, without the payment which would have been due on exercise of the right to withdraw as a consequence of the merger of Area S.p.A. in Bipielle Investimenti S.p.A..

In the second proceedings, 76 plaintiffs requested the sentencing of Banco Popolare, the former BPL S.p.A. and its former managing director, Mr. Gianpiero Fiorani, subject to ascertaining the alleged criminal liability of the latter and liability pursuant to Article 5 of Italian Legislative Decree No. 231/2001 of the two banks, to compensate the alleged damages of euro 25.2 million, inferring the same profiles as the first proceedings.

On 20 January 2010, Banca Intesa San Paolo summoned BPL and Mr. Fiorani in proceedings filed by 9 plaintiffs to extend the sentence to the Bank. In these proceedings, an order to pay alleged damages of euro 1.7 million was requested for the same reasons as the previous two cases.

The three proceedings were concluded, with an order of the Milan Court, which in judgements dated 8-9 May 2013, totally rejected the demands made by the plaintiffs, ordering the same to pay legal expenses; the rulings relating to the first two proceedings have been appealed against by several of the plaintiffs, while the ruling of the third proceeding has been final.

Based on the opinion of external legal experts, Banco Popolare believes that there is only a remote risk of losing.

Raffaele Viscardi S.r.l.

The law suit, notified on 30 April 2009 and which has a petitum of around euro 46 million, concerns the operations of a branch in Salerno relating to the granting of agricultural loans to the plaintiff company, which alleges that it was led to subscribe Banco Popolare bonds to guarantee the sums disbursed and claims damages to its image due to reporting in the Italian Central Credit Register.

Based on the opinion of external legal experts, Banco Popolare believes that there is only a remote risk of losing.

Pandette S.r.l.

In a notice dated 13 March 2014, Banco Popolare was summoned to appear before the court by Pandette S.r.l. The dispute originates from a put and call option contract for no. 25,300,000 shares of RCS Mediagroup S.p.A., signed by the former Banca Popolare Italiana and Pandette in 2006, and amended at the beginning of 2009 with the last exercise period set as February 2014. Following two different extraordinary transactions on the share capital of the RCS Mediagroup in 2007 and 2013, the number of shares covered by the option contract fell to 3,870,900.

In the summons, Pandette is requesting confirmation that (i) the price for the transfer of the RCS shares covered by the Put Option is euro 31,418,985.27 against the claim of Banco of euro 113,473,670.55, (ii) the cost of the service due from Pandette for the transfer of the RCS shares is excessively high and (iii) Banco Popolare and Pandette have an obligation to renegotiate the terms of the contract.

Also based on the firm opinions of its legal counsel, Banco Popolare believes that the risk of losing is remote and has taken measures to safeguard against further credit claims.

Gruppo Perna-IT Holding Spa in Extraordinary Receivership-PA Investments in Extraordinary Receivership

In a notice dated 1 July 2014, IT Holding Spa, in extraordinary receivership, summoned Banco Popolare to appear before the court, as well as the former board directors and statutory auditors of the same IT Holding, the former board directors of the parent company PA Investments S.A. and the independent auditors KPMG and Reconta Ernst & Young. In the Proceedings, Banco (the incorporating company of Efibanca S.p.A.) is accused of having planned and implemented, in collaboration with the board directors of IT Holding and of PA Investments, a series of allegedly prejudicial operations, related to the acquisition of Gianfranco Ferrè S.p.A., which is alleged to have contributed to the deterioration of the company's financial situation, and is requested to be ordered to pay compensation for damages of not less than euro 144 million, together with the other accused parties.

On the basis of substantially similar arguments, in a notice dated 29 July 2014, PA Investments, in extraordinary receivership, summoned Banco Popolare to appear before the court, together with the former board directors of the same PA Investments, requesting Banco to be ordered to pay compensation for damages of not less than euro 128 million, together with the other accused parties.

After an overall assessment of the agreements and the documents submitted to the court, Banco Popolare believes it has a valid case to argue against the accusations made.

Maflow SpA in Extraordinary Receivership

In a notice dated 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned Banco before the court, requesting: (1) a court order, together with others, to pay compensation for damages of euro 199 million, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by Banco unlawfully from loans granted to Maflow from establishment to default. The above is all based on the assumption that Banco played a dominant role by influencing the financial management of Maflow.

Right from an initial analysis, Banco Popolare believes that these requests are entirely spurious, based on a reconstruction of the facts that is as far from reality as any proper legal standing.

Potenza Giovanni

This dispute stems from relations between the former ICCRI and a company called CRIA and regards the renovation of a large building complex in Milan. In 1984, ICCRI granted various credit facilities, all secured with mortgages. The shareholder of CRIA at the time was Giovanni Potenza, who, due to economic difficulties being experienced by the company, agreed with ICCRI to transfer 87% of the company's shareholding to IMMOCRI (ICCRI's real estate company) by means of a shareholder's agreement.

Following the sale of the real estate assets of CRIA to the Norman Group, Mr. Giovanni Potenza filed, starting on 22 November 2001, a series of lawsuits to demonstrate the damages incurred by the sale of said real estate assets by ICCRI and IMMOCRI at a price he retained as inadequate, as well as to obtain the annulment of the settlement agreements between the Norman Group and ICCRI and of the relative contract of sale of the assets.

Whilst awaiting the first instance of the civil proceedings, the plaintiff also initiated criminal proceedings accusing officials of ICCRI and associated companies of extortion. The accusations were then dismissed by the Public Prosecutor's Office.

An appeal has been made against the sentence of the court of first instance in 2009, which ruled in favour of the Bank and ordered the plaintiff to pay legal expenses.

Based on external legal advice, Banco Popolare believes it is likely that the ruling of the first instance will be confirmed.

Administrative Proceedings

On 17 July 2014, Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian legislative Decree no. 231/2007). The accusation regards the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dates back to 2009 and regards the paying in of 41 non-transferrable banker's drafts for a total amount of euro 10,052,000.

At present, the appropriate assessments are underway to ascertain whether the accusations have any grounds.

ITTIERRE S.p.A.

The company was placed under extraordinary receivership. By means of a summons, both the former BPL and the former Banca Popolare di Novara S.p.A. ("BPN") were requested to return, pursuant to art. 67 of the Finance Law, the total sum of euro 16.6 million for the principal creditor and euro 4.9 million for the secondary creditor. An objection was raised as to the erroneous duplication of the request, which in reality referred to the same current account migrated from BPL to BPN following the swap of branches. Furthermore, the grounds of the request were challenged, due to the imprecision of the same insofar as the counterparty had not specified which remittances were being disputed. Both cases are at the conclusive stage. The Judge has rejected all of the counterparty's pre-trial requests.

Letter from Generali Immobiliare Italia SGR

On 5 November 2013, Banco Popolare received a letter from Generali Immobiliare Italia SGR, the management company of the closed-end mutual property investment fund reserved to qualified investors called the “Eracle Fund”, regarding the completion of a tax assessment of the same. The management company stated that the inspectors claimed the alleged failure to apply VAT to the lease agreements in place between the Mutual Investment Fund “Eracle” and BP Property Management for tax years 2009 until 25 June 2012. The VAT claim amounts to a total of euro 35.1 million. In its letter, the management company advised that indemnity would be sought from the Banco Popolare Group for any liability incurred by the Fund and by the management company itself. The letter from Generali Immobiliare Italia SGR is based on the guarantees made by Banco Popolare to the above-mentioned management company at the time of the assignment of the properties owned by the subsidiary Immobiliare BP s.r.l to the above Eracle Fund and the subsequent signature of the lease agreements between the Fund and the subsidiary BP Property Management. Following said letter, all appropriate measures were immediately taken to safeguard the interests of Banco Popolare and its subsidiaries. Based on information available at the present time, the potential liability is not considered likely. Given the specific nature of the dispute, where Banco Popolare is called to safeguard its own interests through Generali Immobiliare Italia SGR, the same has conducted the appropriate risk assessments.

Criminal proceeding relating to Banca Italease

In the ruling of the court of first instance on 27 February 2014, Banca Italease was found guilty in its capacity as liable administratively as per Italian Legislative Decree No. 231/2001 and as the civilly liable party in the criminal proceedings relating to the former members of the Executive Committee for the crime of false company communication regarding the approval of the 2008 half-yearly financial statements of the Bank. The ruling ordered the payment of a fine of euro 450 thousand, the confiscation of the sum of around euro 59 million and compensation of damages to be paid to several of the civil parties for a total of around euro 1.8 million. Based on the opinion of external legal experts, Banca Italease believes that there is only a remote risk of losing and has appealed against the ruling of the court of first instance.

Civil proceedings relating to Banca Italease

Kevios

By means of summons served on 18 December 2009, Kevios S.p.A. summoned Banca Italease before the Milan Court, so as to obtain the upholding of the request for compensation of damages of around euro 65 million, founded essentially on the alleged existence of numerous cases represented therein: abuse of economic dependence, abuse of the law and contractual breach, primarily attributable to the Bank.

In a ruling dated 26 June 2013, the Court of Milan rejected the requests of the plaintiff company as groundless, ordering the same to pay the legal expenses of the Bank. An appeal was submitted against the first instance sentence. Based on the opinion of the external legal expert, Banca Italease believes that there is only a remote risk of losing.

Bankruptcy of Dimafin S.p.A.

The insolvent company Dimafin has asked the Court of Rome to declare the null and void and/or to revoke the “termination agreement by mutual consent” signed on 16 June 2010 by Dimafin, Mercantile Leasing (incorporated into Banca Italease) and Release related to the finance lease contract for the property located in Palazzo Sturzo in Rome.

By virtue of the annulment request, the Judge has been asked to declare that the original finance lease contract is fully in force and effective for the parties, therefore condemning the defendants to immediately make the property available again or, if this is not possible, to pay a corresponding amount in cash, as well as return all instalments of the commercial lease received or to be received as of 1 July 2010.

In a ruling dated 22 April 2013, the Court of Rome rejected the requests made by the insolvent company, ordering it to pay legal expenses. An appeal was submitted against the first instance sentence.

Based on the opinion of the external legal expert, Banca Italease believes that there is only a remote risk of losing.

With regard to the criminal proceedings for fraudulent bankruptcy and preferential bankruptcy relating to the default of the Di Mario group, on 20 June 2012, Banca Italease received a seizure notice for euro 7.9 million, corresponding to the sum that is presumed to be preferential or groundless with relation to a mortgage loan granted in 2009 by Banca Italease, in a pool with Unicredit and Cassa di Risparmio di Bolzano, to Raetia SGR, the contract of which was assigned to Release.

Based on the opinion of external legal counsel, there is a remote risk that the people under accusation will be sentenced and, consequently, under art. 2049 of the Italian Civil Code, also the Bank.

Furthermore, between the end of December 2013 and the beginning of January 2014, the following notices were served:

- four summons to Banca Italease from the insolvent companies of the Dimafin Group requesting compensation of damages and/or clawback actions for bankruptcy totalling euro 98 million jointly with other banks and companies that are not part of the Banco Popolare Group;
- two warning notices to Banca Italease and Release from Raetia and from the Cassa di Risparmio di Bolzano regarding requests for compensation of damages. Raetia's claim, addressed to 11 counterparties not part of

the Banco Popolare Group, held jointly responsible, amounts to a total of euro 95 million, that of the Cassa di Risparmio di Bolzano addressed to 11 counterparties not part of the Banco Popolare Group, held jointly responsible, amounts to a total of euro 17.2 million. At present, the share of the petitem pertaining to Group companies has not been defined and no judgement has been passed on the matter.

Given the complexity of the dispute, which incidentally also involves other banks and companies that are not part of the Banco Popolare Group, based on the opinion of external legal counsel, the risk of losing the above-indicated disputes should be classified as possible.

Bankruptcy of S.E.R.

The insolvent company S.E.R. summoned a series of entities including Mercantile Leasing (incorporated into Banca Italease) seeking to obtain the declaration of invalidity, and, therefore, the unenforceability against the bankruptcy estate, of the transfer deed regarding the property named “Palazzo Sturzo”, entered into between S.E.R., at the time not subject to bankruptcy proceedings, and the Partito Popolare, as well as the transfer deeds which followed, including that which was entered into between Mercantile Leasing, Dima Costruzioni and Dimafin (value of the property around euro 50 million).

The Court of Appeal in Rome, in a ruling dated 6 September 2013, confirming the ruling of the court of first instance, fully rejected the bankruptcy application, ordering it to pay legal expenses. An appeal has been submitted to the Supreme Court.

Based on the opinion of the external legal expert, Banca Italease believes that there is only a remote risk of losing.

Risks associated with current disputes with the Tax Authority

Banco Popolare, the companies that merged to form the same, the incorporated subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2014 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, the Banco Popolare Group is involved in numerous legal proceedings.

The potential liabilities relating to tax disputes underway that involve Banco Popolare and its subsidiaries amounted as at 30 September 2014 to euro 374.8 million, of which euro 217.9 million relate to notices of assessment, tax demands and payment notices and euro 156.9 million relate to formal reports on findings served. In this regard, note that the estimate of said potential liabilities relating to the notices of assessment does not usually consider any interest, while the estimate of potential liabilities relating to formal reports on findings does not usually include interest or fines, insofar as they are not indicated in the latter document.

As at 31 December 2013, the claims of the Tax Authority resulting from the notices of assessment and the formal reports on findings served amounted to euro 478.3 million.

With regard to the disputes listed above, note that provisional payments totalling euro 18.7 million have been made to the Tax Authority relating to tax demands notified. These provisional payments are recorded as receivables towards the Tax Authority.

Developments during the first nine months of 2014

The following paragraphs provide an illustration of the disputes that arose in the first nine months of the year.

New disputes that emerged in the period and/or developments of existing disputes following formal reports on findings served

During the period, potential liabilities rose by euro 20.8 million. This increase is mainly due to the receipt by Banco Popolare of a new Formal report on findings on conclusion of the inspection relating to tax year 2010. The main finding regards the alleged failure to apply (and consequently to pay) withholding tax at source, as set forth in art. 26, paragraph 5 of Italian Presidential Decree 600, on the interest due from the former Banca Popolare di Lodi spa to foreign SPEs resident in the American State of Delaware. Note in this regard that the use of foreign SPEs represented, prior to the “reform of corporate law” implemented by Italian Legislative Decree no. 6 of 17 January 2003, the only way that banks could issue so-called preference shares, namely hybrid equity instruments, which Banca Popolare Italiana actually issued in 2000 and 2005 with the specific authorisation of the Bank of Italy to strengthen its equity position. The total claim, also extended to 2009, 2011 and 2012, amounts to euro 20.3 million (excluding interest and any fines).

The additional increase relates to a settlement notice in which the former Credito Bergamasco is alleged to have failed to pay substitute tax on loans pursuant to art. 15 of Italian Presidential Decree 601/1973 on a deed stipulated abroad (euro 0.3 million) and a settlement notice in which Banca Italease spa is alleged to have failed to apply registration tax of 0.50% on a guarantee to third parties stipulated abroad (euro 0.2 million).

Disputes concluded and/or settled during the period

The management of disputes in progress at the beginning of the year enabled the amount of potential liabilities as at the beginning of the year to be reduced by euro 124.3 million.

The main reason for this reduction was the settlement, under article 15, paragraph 2 bis of Italian Legislative Decree 218/97 of the notices served to Banca Aletti regarding tax years 2005 to 2009. The settlement finalised is in line with the conditions proposed by the Regional Headquarters of Lombardy and by the Central Assessment Headquarters of the Tax Authority regarding all of the tax years under inspection. The figure of euro 120.9 million was paid. A specific allocation to the provision for risks and charges made in previous years was used to honour said payment. The surplus provision recorded (corresponding to euro 0.6 million) was booked to the income statement.

A further reduction of potential liabilities was made possible by the finalisation of further out-of-court settlements reached with the Tax Authority. In more detail, several disputes were settled concerning the deductibility in terms of VAT of fees collected for depositary bank services, with the recognition of a total charge of euro 0.6 million, taken from specific allocations made in the previous year of euro 1.6 million.

Furthermore, the dispute regarding the formal notice on findings dated 23 July 2012 regarding tax year 2009 served to the incorporated company Banca Popolare di Lodi SpA was settled. The settlement entailed the payment of euro 0.1 million against a claim of euro 0.5 million, and had no impact on the income statement for the quarter.

During the third quarter the following were also settled:

- a dispute relating to the recovery of taxes for a higher IRAP rate applicable to the taxable income generated in the Veneto region, pending against former Credito Bergamasco Spa for 2006 (euro 0.3 million). The Regional Tax Commission of Milan issued a favourable final judgement for said dispute.
- a dispute regarding the failure to pay substitute tax pursuant to article 15 Italian Legislative Decree 601/1973 on the Mondadori loan stipulated in Paris on 22 April 2010 by the former Credito Bergamasco Spa. The settlement notice contested before the competent Provincial Tax Commission (euro 0.4 million) was annulled following an internal review by the Agency.

For the sake of completeness of information, note that:

- the tax inspection that started on 12 February 2014 by the Tax Authority - Provincial Headquarters of Lodi on the subsidiary company Bipielle Real Estate and relating to tax year 2009 was concluded on 28 March 2014. The dispute was settled immediately by complying with the formal notice of assessment pursuant to article 5-bis of Italian Legislative Decree No. 218/1997. The settlement entailed a total cost of euro 0.4 million, which was charged to the income statement for the first quarter;
- the tax inspection that started on 19 March 2014 by the Tax Authority - Regional Headquarters of Lombardy on the former subsidiary company Italease Network spa and relating to tax year 2009 was concluded on 25 July 2014. The formal report on findings indicates limited insignificant amounts. This dispute was also settled immediately by complying with the formal notice of assessment pursuant to article 5-bis of Italian Legislative Decree No. 218/1997 with a charge of less than euro 0.1 million.

Details of disputes unresolved as at 30 September 2014

Due to the developments illustrated in the paragraph above, the main tax disputes unresolved as at 30 September 2014 (potential liability equal to or exceeding euro 1 million) are as follows:

Disputes relating to Banco Popolare

- Banco Popolare (formerly Banca Popolare di Verona e Novara Soc. Coop.) - tax demands regarding IRAP tax paid to the Regional headquarters for Veneto and to that for Tuscany in tax years 2003, 2004, 2005 and 2006. The claims refer to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto, and for 2004 only in Tuscany, instead of the higher rate of 5.25% and amount to a total of euro 20.7 million. The tax demands have been contested. With regard to the various tax years, different rulings have been made at different levels of the court system. As regards tax years 2003 and 2004, a ruling of the Provincial Tax Commission totally in favour of Banco Popolare was then followed by a ruling of the Regional Tax Commission, which partially admitted the claims of the Tax Authority, retaining a rate of 4.75% to be applicable. The outcome is still pending, awaiting the ruling of the Supreme Court. With regard to tax year 2005, the Provincial Tax Commission rejected Banco Popolare's appeal, while in a ruling dated 10 March 2011, the Regional Tax Commission partially admitted the appeal and declared that the fines requested were not due. An appeal has been submitted to the Supreme Court. With regard to the tax demand for tax year 2006, in a ruling dated 17 May 2011, the Provincial Tax Commission partially admitted the appeal and declared that the fines requested were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating higher IRAP regarding the Tuscany Regional Authority. An appeal has been submitted to the Supreme Court.
- Banco Popolare (formerly Banca Popolare Italiana Soc. Coop.) - notice of correction regarding the registration tax applicable to the disposal of a business segment in 2004 between Banca Eurosystemi S.p.A. (later

incorporated into Banca Popolare Italiana Soc. Coop.) and Banca Popolare di Lodi Soc. Coop. The claim resulting from the correction of the value of the business segment amounts to euro 7.4 million. The appeals submitted to the Provincial and Regional Commissions have been rejected. An appeal submitted to the Supreme Court is still pending.

- Banco Popolare (formerly Banca Popolare Italiana Soc. Coop.) - notice of settlement regarding registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amount to euro 14.5 million. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by Banco Popolare. An appeal submitted to the Supreme Court is still pending.
- Banco Popolare (formerly Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to euro 170.5 million. An appeal was presented to the Provincial Tax Commission. The hearing for discussion took place on 7 October. A brief responding to the deductions submitted by the Agency has been submitted. In this regard, please also refer to the paragraph entitled “Developments relating to tax disputes” included in “Significant events after the end of the period”.
- Banco Popolare (formerly Banca Popolare Italiana Soc. Coop.) - formal report on findings dated 30 June 2011, with relation to tax years 2006-2010 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences - The claims amount to euro 7.0 million. Defensive briefs were submitted pursuant to article 12 of Italian Law no. 212 dated 27 July 2000.
- Banco Popolare (Efibanca Spa) - formal report on findings dated 28 September 2012, the main finding of which is the claimed non-deductibility for IRES purposes, of negative components only relating to several financial liabilities measured at fair value in tax year 2008. The claim amounts to euro 8.5 million. Defensive briefs were submitted pursuant to article 12 of Italian Law no. 212 dated 27 July 2000.
- Banco Popolare (former Banca Popolare di Novara, former Banca Popolare di Verona SGSP, former Efibanca, former Credito Bergamasco spa) - settlement notices regarding the alleged failure to pay substitute tax on loans pursuant to art. 15 of Italian Presidential Decree 601/1973 on several deeds stipulated abroad. The claim amounts to a total of euro 3.7 million. With regard to the two cases that have already been discussed, one decision was made in the company's favour, the other was not. Furthermore, as regards a further notice already contested before the Commission, the Agency annulled the same following an internal review.
- Banco Popolare – formal report on findings dated 25 June 2014, the main finding of which regards the failure to apply withholding tax to innovative equity instruments in tax years 2009, 2010, 2011 and 2012. The claims amount to euro 20.3 million.

Disputes relating to the subsidiary company Banca Italease

- Banca Italease - Settlement notices to recover the mortgage and cadastral taxes on a loan stipulated in 2006. The claim amounts to a total of euro 3.2 million. The appeal submitted by Banca Italease was upheld in the first and second instance. The Attorney General submitted an appeal to the Supreme Court. The Bank has submitted the relative counter-appeal.
- Banca Italease - Formal report on findings dated 30 November 2012 relating to tax years 2007, 2008 and 2009 mainly regarding costs relating to facts or actions that are considered offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Italease with regard to the incorrect recognition of counterparty risk in derivative contract transactions performed in 2007), the failure to apply withholding tax to the interest paid on the deposit on lending opened with the Bank as part of the issue of innovative equity instruments, the relevance for tax purposes of a fund taxed at the time of the share capital increase of Release, with transfer of the business division of other minor findings - The claims amount to euro 74.9 million. In January 2013, defensive briefs were submitted pursuant to article 12 of Italian Law no. 212 dated 27 July 2000.
- Banca Italease - Notice of assessment and formal written notice of the sanctions, which contains findings relating to the failure to apply withholding contained in the formal report on findings dated 30 November 2012 regarding tax year 2007. The claims amount to euro 3.2 million. In January 2013, appeals were submitted against the above documents, which are now pending before the competent Provincial Tax Commission. The Tax Authority appeared before the court to submit its counter arguments.
- Banca Italease - Notice of assessment and formal written notice of the sanctions, which contains findings relating to the failure to apply withholding contained in the formal report on findings dated 30 November 2012 regarding tax year 2008. The claims amount to euro 3.9 million. In January 2013, appeals were submitted against the above documents, which are now pending before the competent Provincial Tax Commission.
- Banca Italease- various settlement notices concerning the alleged failure to pay registration tax on finalised deeds related to the operation to restructure the debt of an Italian industrial group. The claim amounts to euro 3.1 million. An appeal has been submitted to the competent Provincial Tax Commission.

Disputes relating to other subsidiary companies

- Bipielle Real Estate - settlement notice for registration tax regarding the reclassification of a business segment conferral involving Reti Bancarie Holding (later incorporated into Banca Popolare Italiana Soc. Coop.). The claim amounts to euro 13.6 million. The Provincial and Regional Commissions ruled in favour of the subsidiary company Bipielle Real Estate. The Tax Authority has appealed to the Supreme Court. A counter-appeal has been submitted.
- Bipielle Real Estate - notices of assessment regarding VAT and IRAP taxes for tax year 2005 served to Basileus S.r.l., (a subsidiary company sold in 2008, for which Bipielle Real Estate is fiscally liable for the years prior to the disposal). The claims amount to euro 11.3 million. In January 2012, the ruling of the Lodi Provincial Tax Commission was filed. The ruling annulled the notices of assessment issued against the Company, ordering the Office to pay legal expenses. In a ruling issued in May 2013, the Regional Tax Commission of Milan, changing the ruling in the first instance, upheld the appeal submitted by the Tax Authority, confirming all of the claims. An appeal has been submitted to the Supreme Court.
- Aletti Fiduciaria - notice to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounts to euro 7.9 million. The company's appeal was fully upheld in the first and second instance. In January 2013, the Tax Authority appealed to the Supreme Court.

The list of existing disputes shown above does not include tax disputes regarding the applicability of VAT to custodian bank fees received by the Group as out-of-court settlements are current being negotiated for the same. The residual liability that the Group is expected to incur is estimated to be euro 0.2 million and is covered by a specific allocation to the provision for risks and charges.

Classification and valuation of potential liabilities in accordance with the provisions of accounting standard IAS 37

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings underway and also considering the specific opinions issued by authoritative external parties, the potential liabilities classified as possible but unlikely amount to a total of euro 359.1 million.

The potential liabilities classified as probable amount in total to euro 15.7 million and have already been fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated under tax liabilities.

Inspections underway as at 30 September 2014

As at 30 September 2014, an inspection by the Inspection and Collection Department of the Tax Authority - Regional Headquarters of Veneto is underway as regards the subsidiary company BP Property Management. The inspection is general and regards IRES, IRAP and VAT for tax years 2008 to 2011. As at 30 September 2014, the inspection had been suspended.

OTHER INFORMATION

Disclosure on earnings per share

	30 September 2014			30 September 2013		
	Annualised attributable result (euro)	Weighted average of ordinary shares	EPS (euro)	Annualised attributable result (euro)	Weighted average of ordinary shares (*)	EPS (euro)
Basic EPS	(162,327,575)	278,098,670	(0.584)	220,537,463	176,373,080	1.250
Diluted EPS	(162,327,575)	278,098,670	(0.584)	220,537,463	176,373,080	1.250

(*) the figures of the weighted average of ordinary shares have been restated to provide a like-for-like comparison.

Note that as at 30 September 2014, basic EPS coincides with the diluted EPS: an "anti-dilutive" effect was recorded for the only active instrument with potential diluting effects, represented by the "Banco Popolare 2010/2014 4.75%" convertible bond issue, which was redeemed on maturity on 24 March 2014.

KEY FINANCIAL HIGHLIGHTS OF THE MAIN GROUP COMPANIES

A summary of the main investments in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 30 September 2014.

(in millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Income (Loss)
Banks						
Banca Aletti & C. (Suisse)	114.7	14.7	96.8	338.9	20.2	0.4
Bipielle Bank (Suisse)	93.3	46.4	8.6	-	10.0	(0.4)
Banco Popolare Luxembourg	1,696.4	75.9	1,517.3	5,236.2	182.0	3.1
Banca Aletti & C.	13,940.6	838.0	1,000.9	18,129.8	1,670.6	84.7
Banca Italease	4,607.7	1,043.5	1,070.5	-	3,469.7	(59.0)
Financial companies						
Aletti Gestielle SGR	222.0	146.0	1.0	12,540.6	54.2	25.3
Aletti Fiduciaria	10.0	7.6	-	1,366.3	2.0	0.2
Release	3,217.3	201.0	25.6	-	2,403.6	(44.1)
Italease Finance	1.0	0.1	-	-	-	-
Other companies						
Società Gestione Servizi - BP	304.7	106.1	-	-	1.5	1.5
Holding di Partecipazioni Finanziarie Banco Popolare	544.1	541.1	-	-	-	31.4
Bipielle Real Estate	1,140.4	1,103.3	-	-	-	9.2
Tecmarket Servizi	20.2	12.1	-	-	-	3.1
Italease Gestione Beni	118.7	57.8	-	-	8.4	4.1

(*) amount inclusive of the income (loss) for the period.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Banco Popolare passes the Comprehensive Assessment by a wide margin

On 26 October 2014, the Supervisory Board and the Governing Council of the ECB approved the Final Report and Results of the Comprehensive Assessment exercise. Said exercise was conducted by the ECB in collaboration with national supervisory authorities, before the same takes on full responsibility for the supervision of banks as part of the Single Supervisory Mechanism in November 2014.

The publication of the results at European level by the ECB and the EBA was followed by the publication of the results of the Italian banks participating in the exercise by the Bank of Italy.

On the basis of the actual figures taken from the disclosure submitted to the markets by the Bank of Italy, Banco Popolare passed the exercise by a wide margin, obtaining the following indicators:

- CET1 ratio post AQR of 11.50% compared to a minimum threshold required of 8.0% (a surplus of +350 b.p. corresponding to over euro 1.8 billion);
- CET1 ratio post Stress Test impact conducted according to the baseline scenario of 10.26% compared to a minimum threshold required of 8.0% (a surplus of +226 b.p.);
- CET1 ratio post Stress Test impact conducted according to the adverse scenario of 8.29% compared to a minimum threshold required of 5.5% (a surplus of +279 b.p.).

As indicated by the ECB in its notice, the shortfalls that emerged as regards the equity situation of Banco Popolare as at 31 December 2013, have been totally recovered by the capital strengthening measures taken in the first half of 2014. The latter include the share capital increase of euro 1.5 billion completed in April, the incorporation of Credito Bergamasco, finalised on 1 June 2014, the impact resulting from the validation of internal models for operating risk obtained with reference to 30 June 2014 and the sale of the foreign subsidiary BP Croatia, finalised in April.

The results of the Comprehensive Assessment exercise with reference to Banco Popolare and the relative impact on the accounts are illustrated in detail in the section called "Results - Shareholders' equity and solvency coefficients" contained herein.

Evolution of the network distribution model

At a meeting of the Board of Directors held on 14 October, further measures to rationalise the Commercial Network were resolved, in addition to those approved by the Executive Committee on 31 January 2014 and the Board of Directors on 10 June of this year:

- disposal of a further 23 branches, which contribute to a limited extent to Net interest and other banking income or which are located in areas with low potential sales;
- fine-tuning of the “Hub & Spoke” model, with action taken on central facilities and/or on traditional branches, relating to more or less 40 business units.

Furthermore, Banco Popolare’s business model was extended to the Creberg Division, identifying, in line with the features and the potential of the area, business branches where corporate activities should be concentrated, reducing the current 86 business branches of the Division to 30.

The project to rationalise the Group’s branch network as a whole will entail the net reduction of 112 branches by the end of the current year.

The strategy pursued with the closure of these branches is to eliminate territorial overlaps and the location of branches that are too isolated with respect to others, to reduce presence in areas with low commercial potential and, consequently, to cut costs. At the same time, the Hub & Spoke model will enable the Group to strengthen its position in areas of more commercial interest and to focus on providing excellent customer service.

Developments relating to tax disputes

After the end of the quarter, the following developments relating to disputes with the Tax Authority took place:

With regard to a notice of assessment relating to 2005 served to the former Banca Popolare Italiana, which contested the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta, insofar as costs clearly used to perform actions or activities considered an offence committed with criminal intent, tried by the Public Prosecutor as a criminal case, note that in separate rulings issued on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, wholly rejected the appeals submitted by Banco Popolare. The above-mentioned rulings can be rebuked from a number of perspectives. First of all, the grounds of the same are totally insufficient/superficial. More specifically, after having correctly established that the fundamental requirements for doubling the terms for the assessment is the existence of prerequisites for a compulsory criminal complaint for one of the offences envisaged by Italian legislative decree no. 74, the Company’s petition was rejected without any explanation as to the grounds for such, where, in the case in hand, the cited prerequisites underlying the obligation to make a criminal complaint did actually exist.

Secondly, also with regard to the merits of the dispute, the Judges of the first instance made a ruling based on statements that were clearly unsuitable to provide valid grounds for the case. In reality, the appeals were rejected without even one word as to the reasons why, in the case in hand, the negative components relating to the tax charges resulting from (i) the write-down of exposures, (ii) the repurchase of minority interests, (iii) legal fees and (iv) fees paid to obtain guarantees (all charges established by the new Board of Directors of Banca Popolare Italiana and therefore subsequent to the crimes being committed by the former top management figures of Banca itself and in any event relating to legal activities), would represent, as expressly requested by the law, costs sustained for the purchase of goods and services directly used to commit the crimes with criminal intent with regard to which criminal action was taken against several top management figures of the former Banca Popolare Italiana.

Based on the above rationale, the above rulings were contested before the Regional Tax Commission of Lombardy.

Banco Popolare retains that the rulings issued in the first instance, as without valid grounds, require a full and thorough review by the Judge of the second instance of all legal and factual arguments, already formulated at the first instance and which do not change the valuation of the potential liabilities relating to the dispute, which is retained possible but not likely. Allocations were therefore made to the provision for risks and charges to cover the potential liabilities in question.

- The inspection of the subsidiary BP Property Management for 2008-2011, which as at 30 September 2014 was stated as suspended, was completed on 27 October with the issue of a formal report on findings, in which the period utilised for depreciation relating to improvements to third party properties rented, deducted by the subsidiary in 2009 both for IRES and IRAP purposes, is contested to the extent of euro 2.3 million in total. As the dispute regards the year to which said costs actually refer, the portion of the depreciation that the inspectors retain non-deductible in 2009 and 2010 may be deducted in 2010 and 2011 respectively. The higher taxes claimed for 2009 and 2010 are therefore offset by higher taxes paid in subsequent years. The

finding is therefore only relevant in terms of the fines that will be applied by the Tax Authority when the notice of assessment is issued plus interest.

Although no specific contestation in this regard is stated in the formal report on findings, it also contains a report as regards VAT for 2009 to 2012 relating to the matter of lease instalments due by BP Property Management (as leaseholder) and invoiced by Generali Immobiliare Italia SGR (management company of the Mutual Investment Fund “Eracle”). According to the theory sustained by the inspectors, said instalments should not have benefitted from the exemption from VAT envisaged by article 10, first paragraph, no. 8) of Italian Presidential Decree no. 633/1972 indicated in the invoices issued by the SGR. In this regard, note that a similar contestation is contained in the Formal report on findings served to Generali Immobiliare Italia SGR already illustrated in the paragraph above entitled “Risks associated with pending legal proceedings” to which the reader is referred.

Agreements relating to employees

Following completion of verifications for the process to join the Solidarity Fund set forth in the agreement dated 31 July, on 23 October 2014, a further agreement for admission to the extraordinary provision for an additional number of employees (48) was stipulated, who, as in possession of the social security requirements required by the law in force and in specific personal and/or family situations, had requested the Company for early retirement.

As this commitment refers to decisions taken in October 2014, it will be recognised in the balance sheet and income statement relating to the fourth quarter of 2014, as established by the reference standard IAS 10.

Lastly, the agreement signed on 29 October 2014 redefined the plan for suspension from work for 2015, which now specifically envisages 1 compulsory day of suspension from work for all Group company employees.

Covered Bond transactions and securitisations

As part of the Commercial Covered Bonds Programme, in October 2014, several measures were resolved upon mainly for the purpose of redirecting cash levels to below the threshold envisaged by Italian law relating to Covered Bonds.

More specifically, the following measures were approved: 1) the sale by Banco Popolare to the SPE BP Covered Bond S.r.l of a fifth portfolio of appropriate assets represented by mortgage loans and commercial and residential landed property loans, which will be paid for by using available liquid assets deposited in the current accounts of the SPE and resulting from the repayment of the principal of loans sold under the Programme; 2) the simultaneous repurchase by Banco Popolare of a portion of the loans, previously sold to the SPE and no longer classified as suitable, the payment for which will be settled by means of the advance partial repayment of the subordinated loan granted by the Assigning Banks to the SPE; 3) the advance partial repayment in cash of the subordinated loan for an additional amount with respect to the repurchase price of the unsuitable loans.

In October 2014, the rating agency Fitch upgraded the Class C security of the Bipitalia Residential operation from “BBB” to “A”.

OUTLOOK FOR BUSINESS OPERATIONS

As mentioned in the section on the economic scenario, the increased risks of the international economic scenario and lower global growth than expected, and negative growth in Italy, are the key factors underpinning the business of the national banking industry in the third quarter of the year and which are set to characterise the year until the end of the same. Although the economic recovery in the United States is gaining momentum, growth in Emerging countries is showing signs of difficulty and international trade, the main driver of growth in the Eurozone, is becoming progressively lacklustre. The Italian economy continues to be caught up in the vicious circle of weak domestic demand, accompanied by business risk appetite immobilised by fragile economic prospects, and held back by the deleveraging measures that all domestic operators, especially the public sector, are continuing to implement. This situation has only been partially alleviated by the ECB’s progressively more expansive monetary policy.

While the economic conditions continue to be disadvantageous for the banking industry, the completion of the Comprehensive Assessment (Asset Quality Review and Stress Test) conducted by the EBA and the ECB instead confirmed the good condition of the Italian banking system. By removing important elements of uncertainty as to the risk profiles of individual operators, this will bring important benefits to the brokerage sector, especially as regards funding instruments.

In this context, the increase of assets at system level is expected to continue to be very limited, with contributions reduced to customer margins, while the accommodating monetary policy will maintain official interest rates close to zero. The afore-mentioned margin is expected to improve following the refinancing operations with the Central Bank at lower than market rates (TLTRO), also due to the extensive availability of eligible assets in the Eurosystem. The bank interest spread should in any event continue to widen: in terms of funding, due to the further improvement of

conditions for access to funding following the announcement of the results of the above-mentioned stress tests, but also in terms of loans, where the deterioration of credit quality continues to be the main deterrent to supply, due to a more accurate assessment of creditworthiness and the pricing of credit risk. Instead, the interest margin will be penalised at year end by the fall in interest on securities in the portfolio.

The fall in other revenues, above all due to the lack of the extraordinary component relating to the fair value measurement of the stake in the Bank of Italy, will keep the change in net interest and other banking income for the system negative. Adjustments to loans, despite the stabilisation of new flows of bad loans, net of sales of non-performing loans, which have risen over the course of the year, will continue to have repercussions on the results from ordinary operations, so that the improvement of profit will depend on the control of operating costs and the fine-tuning of the service model.

Although the macroeconomic scenario continues to show signs of weakness, the Group passed the Comprehensive Assessment exercise conducted by the regulators with flying colours, due to strategic measures taken to strengthen the equity base, and capital solidity above the average of its competitors.

This result, combined with a robust liquidity position, represents the foundation to then develop strategies which envisage an improvement of profitability levels in the medium term.

The profitability objectives will be pursued by following the guidelines of the business plan, which envisage significant efforts to improve operational efficiency, a focus on business development in traditional customer segments and careful monitoring of lending costs.

More specifically, with regard to improving operational efficiency, Banco Popolare will start to fully enjoy the synergies resulting from the merger of Creberg into the same, the announced incorporation of Banca Italease into Banco Popolare will continue, with the closure of marginal branches and in general the efficiency of the distribution structure will be improved.

The measures taken to improve the commercial network will also benefit from the recent TLTRO programme, which the Group participated in together with the industry's main banks, which will provide, hand in hand with a careful assessment of credit risk factors, support to the liquidity needs of companies in the bank's local areas.

DECLARATION OF THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The Manager responsible for preparing the Company's financial reports, Gianpietro Val, hereby states, pursuant to the provisions of the second paragraph of art. 154 bis of the "Consolidated Law on Finance", that the accounting disclosures contained in this Interim Report on operations as at 30 September 2014 of the Banco Popolare Group match the information reported on the company's documents, books and accounting records.

Verona, 11 November 2014

The Manager responsible for preparing
the Company's financial reports

Gianpietro Val


ATTACHMENTS

Reconciliation between the reclassified income statement as at 30 September 2013 and the same restated for comparative purposes

Reclassified income statement items (in thousands of euro)	30/09/2013	IFRS 5 reclassifications	30/09/2013 restated
Interest margin	1,267,290	(10,507)	1,256,783
Income (loss) from investments in associates carried at equity	(34,312)		(34,312)
Financial margin	1,232,978	(10,507)	1,222,471
Net fee and commission income	1,068,499	(785)	1,067,714
Other net operating income	136,034	948	136,982
Net financial result (without FVO)	268,295	(370)	267,925
Other operating income	1,472,828	(207)	1,472,621
Operating income	2,705,806	(10,714)	2,695,092
Personnel expenses	(1,035,966)	5,386	(1,030,580)
Other administrative expenses	(532,843)	2,751	(530,092)
Net value adjustments on property and equipment and intangible assets	(96,799)	874	(95,925)
Operating expenses	(1,665,608)	9,011	(1,656,597)
Income (loss) from operations	1,040,198	(1,703)	1,038,495
Net adjustments on loans to customers	(689,004)	4,423	(684,581)
Net adjustments on receivables due from banks and other assets	(66,492)	6	(66,486)
Net provisions for risks and charges	1,708	(9)	1,699
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	95,496		95,496
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	(709)		(709)
Income (loss) before tax from continuing operations	381,197	2,717	383,914
Taxes on income from continuing operations	(182,208)	3	(182,205)
Income (loss) after tax from discontinued operations	(753)	(2,720)	(3,473)
Income (loss) attributable to minority interests	(11,130)		(11,130)
Net income (loss) for the period without FVO	187,106	-	187,106
FVO Impact	(21,703)	-	(21,703)
Parent Company's net income (loss)	165,403	-	165,403

