BPER: Banca

PRESS RELEASE

Consolidated results for H1 2016 approved

In the consolidated financial statements at 30 June 2016 we have highlighted, for the first time, the effect of using internal models for measuring credit risk, following their validation by the ECB on 24 June, the first in Italy under the Single Supervisory Mechanism.

The Phased In CET1 ratio comes to 14.49% (14.13% Fully Phased), which ranks the BPER Group at the top of Italian banking groups in terms of their capital ratios. The capital buffer in excess of the minimum required by the ECB (SREP of 9.25%) has risen to 524 bps (230 bps in March 2016)

The stress tests carried out by the ECB have confirmed the Group's resilience to particularly penalising macroeconomic scenarios, given an impact on the CET1 ratio under the adverse scenario in 2018 in line with the average value reported by European banks participating in the EBA stress test. If we take into account the validation of internal models, the Group's CET1 ratio under the adverse scenario in 2018 ranks among the highest of the banking system, both in Italy and in Europe[1].

In July, sale without recourse of a bad loan portfolio for a gross of around € 450 million[2], followed by another important sale in line with the target of disposing about 10% of the gross stock of bad loans in 2016.

Net profit for the half year of € 64.7 million (€ 73.2 million in the same period of 2015) achieved in a particularly unfavourable market and interest rate environment and influenced both by extraordinary income[3] and by the 2016 contribution to the Single Resolution Fund.[4]

Operating profitability[5] down slightly (-2.6%) compared with the same period last year.

Net loans up by 0.7% from the end of 2015 (gross loans +1.0%) confirming the recovery of lending to customers.

Net non-performing loans are substantially stable both on the previous quarter and on the end of 2015 and are down by 2.2% y/y; the coverage ratio has further strengthened to 45.0% (44.2% at the end of 2015)

The Phased in Basel 3 Leverage Ratio of 7.0% (6.9% Fully Phased) is among the best of the system with LCR and NSFR liquidity indices well over 100%.[6]

The Board of Directors of BPER Banca today reviewed and approved the separate results of the Bank and the consolidated results of the Group at 30 June 2016.

At the end of the Board meeting, Alessandro Vandelli, CEO of BPER Banca, declared: "The half year just ended represents a key milestone for the Group's future, because for the first time, after several years of intense work, we can use our internal models for measuring the capital requirements for credit risk ("AIRB"), following validation by the European Central Bank. The BPER Group now has one of the highest levels of financial solidity in the banking system, both in Italy and in Europe, with a phased in CET1 ratio of 14.49%. The excess capital over and above the ECB's minimum requirement (SREP of 9.25%) is extremely high, at 524 bps, which allows us to look to the future with absolute serenity and from an even stronger position. In addition to the validation, it is worth remembering at least two other no less important events that reinforce the very positive picture that I have just outlined. To start with, at the beginning of July, we completed the sale of a portfolio of bad loans for an amount of around € 450 million, which will be followed by another important sale before the end of this year, with the aim of disposing of around 10% of our gross stock of bad loans in 2016. Secondly, the result of the 2016 stress test carried out by the ECB at the end of July, taking into account the benefits resulting from validation of our internal models, projects the Group's CET1 ratio, under the adverse scenario in 2018, among the highest of the banking system, both Italian and European. In terms of the Group's ordinary operations, the consolidated financial statements for the first half show a net profit of € 64.7 million, a level of profitability that we consider satisfactory considering that it was achieved in a particularly unfavourable environment because of the constant turmoil in financial markets and interest rates that continue to fall and are now structurally below zero. There are encouraging signs from lending to customers which posted a 0.7% increase in net loans during the period. The level of coverage of total non-performing loans has again improved, coming in at 45%, up from 44.2% at end-2015, remaining one of the highest among our direct competitors. On the home front, among the many activities planned or under construction in the Business Plan, it is worth highlighting the fact that the distribution network in Sardinia has been rationalised following the transfer of Banca di Sassari's branches to Banco di Sardegna, with the former being transformed into the Group's consumer finance company. This process of simplification made it possible to close another 40 branches during the quarter for a total of 98 branches closed since the beginning of 2015. To summarise, it can be said that at the end of this intense period of work, complicated by the high tensions in financial markets, our customers, shareholders and employees can rely on a Group that ranks among the very best in Italy, with some of the highest levels of capital solidity, liquidity, leverage and loan coverage, as well as a satisfactory level of profitability."

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Income statement: key figures

Net interest income comes to € 590.4 million, down 5.2% y/y mainly due to the level of short-term interest rates now structurally negative (average of the 3-mth Euribor of -22 bps in the first half of 2016, compared with an average of -6 bps in the second half of last year and around +6 bps in the first half of 2015) which negatively affected the performance of the total spread, even in the presence of a constant decrease in the cost of funding, though this was still unable to offset the decline in asset yields. Net interest income in the second quarter of the year amounts to € 293.6 million (€ 296.8 million in the first quarter of 2016), down by 1.1% on the previous quarter with a total spread decreasing only slightly (-3 bps).

Net commission income of € 358.1 million is 0.5% down on the same period last year. In detail, on a half-yearly basis, the strong increase during the period in net commission income relating to funds under management and "bancassurance" (+7.3% y/y) was not sufficient to offset the decline in net commission income on loans and guarantees (-2.2% y/y) and on credit cards, collections and payments (-6.3% y/y). In the second quarter of the year, net commission income amounts to € 181.0 million, up 2.2% on the previous quarter, confirming the growth trend in net commission income from funds under management and "bancassurance" (+9.0% q/q), accompanied by a good recovery from those on credit cards, collections and payments (+5.7% q/q).

The **net result from trading activities** (including dividends) amounts to Euro 73.5 million (-2.4% on the first half of last year which was characterised by a particularly favourable trend), because of tensions and high volatility in financial markets; this result includes extraordinary income of € 30.2 million relating to the capital gains from the sale of the investment held by the Group in Visa Europe[7], which was completed in the second quarter of the year; net of these non-recurring items, the net ordinary result from trading activities and dividends shows a decrease of 42.5% compared with the first half of last year, which featured a particularly favourable market trend. This result was helped by net profits realised on securities and derivatives for € 78.9 million, net losses on securities and derivatives for € 17.6 million, and other positive elements for € 3.5 million, including the fair value option on financial liabilities, as well as the extraordinary income already mentioned.

Operating profit[8] amounted to € 1,054.0 million, down 2.6% from the same period last year; this result shows a decrease of 5.4%, excluding the extraordinary income mentioned above, and is mainly due to the lower contribution of net profit from financial activities and net interest income.

Operating costs amounted to € 639.7 million, up 1.9% y/y[9]. **Payroll costs** amounted to € 398.2 million, with a slight increase of 0.5% y/y. **Other administrative expenses** amount to € 203.9 million (€ 197.0 million in the first half of 2015; +3.5% y/y). **Depreciation on tangible and amortisation on intangible assets** amounted to € 37.6 million (€ 34.4 million in the same period of 2015;+9.0% y/y).

Net adjustments to loans and other financial assets amount to € 272.1 million, down on the same period in 2015 (-11.6%). In detail, adjustments to loans amount to € 276.1 million (€ 297.7 million in the first half of 2015). Net adjustments to other assets (writebacks) are positive for € 4.0 million (they were negative – net adjustments - for € 10 million in the same period last year), and include an extraordinary writeback of € 11.0 million relating to an allocation made to the Interbank Deposit Guarantee Fund for Banca Tercas accounted for under caption 130 d). The overall cost of credit at 30 June 2016 comes to 63 bps (126 bps annualised compared with 162 bps in 2015).

Net provisions for risks and charges come to € 22.1 million (€ 26.5 million in the first half of 2015), down 16.6% y/y.

The **profit from current activities before tax** comes to € 92.9 million at 30 June 2016 on a profit of € 115.6 million in the first half of last year. **Income taxes for the period** amount to € 27.8 million (€ 34.6 million at 30 June 2015), with an effective tax rate of 29.9%.

Total net profit for the period comes to € 65.1 million (€ 81.0 million in the same period last year), including the net profit pertaining to minority interests of € 0.4 million (€ 7.8 million at 30 June 2015). The **net profit pertaining to the Parent Company** therefore comes to € 64.7 million (€ 73.2 million at 30 June 2015).

Balance sheet: key figures

Direct borrowing from customers (due to customers, debt securities in issue and financial liabilities designated at fair value through profit and loss) amounts to € 45.7 billion, 3.4% down on the end of 2015, in application of a clear Asset & Liabilities Management strategy aimed at reducing the cost of funding while maintaining a balanced duration between assets and liabilities; of the various types of deposits, there has been a 0.7% increase in demand deposits (current accounts and unrestricted deposit accounts) compared with the end of 2015, while there has been a decline, mainly in the retail bond component, by € 1.1 billion (-14.7% y/y), time deposits by € 0.3 billion (-14.3%) and certificates of deposit by € 0.5 billion. Direct borrowing is made up principally of current accounts, unrestricted and short-term restricted deposits (68.5%) and bonds (14.4%), of which 59% are in the hands of retail customers.

Indirect customer deposits, marked to market, amount to € 31.7 billion, an increase of 4.3% since the start of the year. In particular, assets under management are showing a 1.3% increase since the end of 2015, with a positive net inflow for the half-year of around € 0.3 billion. In the same period, assets under administration posted an increase of 7.1%, mainly thanks to institutional funding. The **life insurance policy portfolio**, which is not included in indirect borrowing, comes to € 4.2 billion, a substantial increase since the start of the year (+12.7%).

Loans to customers, net of adjustments, amount to € 44 billion, for an increase of 0.7% compared with the end of 2015, confirming the recovery in lending to customers that was already visible during the last quarter of the year, with a good performance on the part of mortgage loans (+0.8%). Looking at the various types of loans, there has again been a positive performance on the part of residential mortgages, which saw new loans rising by 23.4% on the first half of 2015.

Net non-performing loans (bad loans, "unlikely to pay" loans and past due loans) amount to € 6.4 billion, essentially stable on the end of 2015 (+0.6%) with a **total coverage ratio of 45.0%** compared with 44.2% at the end of last year, among the highest in the system; and this does not take into consideration the write-offs of bad loans still outstanding (1.2 billion), which take the coverage ratio to 50.1% (49.7% at 31 December 2015), nor the value of secured and unsecured guarantees. In detail, **net bad loans** amount to € 3.1 billion (+3.3% since the end of last year) with coverage of 58.5% (58.2% at 31 December 2015), without considering the value of secured and unsecured guarantees; in addition, taking into account the direct write-offs of bad loans still outstanding, coverage comes to 64.3%, much the same as at the end of 2015. Net **"unlikely to pay"** loans amount to € 3.1 billion, more or less stable compared with the end of 2015 (+0.4%) with a level of coverage of 22.1% (21.9% at 31 December 2015), while net **past due loans** amount to € 0.2 billion, down 29.7% from the end of last year with coverage of 8.2%.

These figures do not take into consideration the sale of a bad loan portfolio for a gross amount of around € 450 million, completed after the end of the period, which will be accounted for in the quarterly results at 30 September 2016.

The **net interbank position**, which is negative for € 7.0 billion compared with € 4.4 billion at the end of 2015, is the difference between the amounts due from banks of € 1.1 billion and the amounts due to banks of € 8.1 billion. The total amount of refinancing with the European Central Bank comes to € 4 billion, which is entirely due to the participation in the second series of the long-term refinancing transactions called “TLTRO-II” (“Targeted Longer Term Refinancing Operations-II”), which completely replaced the refinancing of 3.3 billion shown at 31 March 2016 (€ 1.3 billion of short-term loans and € 2 billion of TLTRO-1). Financial instruments eligible for use as collateral for refinancing transactions on the market amount to € 13.1 billion, net of the haircut, of which € 4.7 billion is available.

Financial assets amount in total to € 13.0 billion, an increase of 12.5% on the end of 2015, representing 20.8% of total assets. Debt securities represent 92.5% of the total portfolio and amount to € 12.0 billion: of these, € 6.7 billion relate to government securities (mostly represented by Italian government bonds) and € 4.2 billion to banks and supranational entities.

Against assets available for sale (AFS) of € 9.5 billion, there are positive valuation reserves for a total of € 178.9 million, net of the related tax effect, which is the net result of positive reserves for debt securities, equities and UCITS of € 194.6 million, less negative reserves of € 15.7 million. The "AFS" reserve for government securities is showing gains for an amount (net of taxes) of € 80.1 million (€ 90.2 million at 31 December 2015). Moreover, with regard to the portfolio of financial assets held to maturity (HTM) of € 2.6 billion, the difference between their fair value and book value is positive, net of the related tax effect, resulting in a net implicit reserve of € 150.6 million.

Total equity ("own funds") at 30 June 2016 amounts to € 5.7 billion (+0.2% on the end of 2015), with minority interests of € 0.7 billion. Consolidated shareholders' equity of the Group, including the result for the period, comes to € 5.0 billion, -0.7% since the end of 2015.

Capital ratios

The **capital ratios** have been calculated for the first time taking into account the AIRB methodology for the credit risk requirement, thanks to the recent validation of internal models, with a benefit of around 3 percentage points.

The ratios have been calculated taking into account the share of profit realised at 30 June 2016 that is allocable to equity[10], compared with the figures at 31 March 2016[11] and 31 December 2015[12], as follows:

- “Phased In Common Equity Tier 1 ratio of 14.49% (11.55% at 31 March 2016 and 11.54% at 31 December 2015). This ratio calculated on a fully phased basis comes to 14.13%;
- “Tier 1 ratio (Phased in)" of 14.55%, (11.65% at 31 March 2016 and at 31 December 2015);
- "Own Funds ratio (Phased in)" of 16.04% (12.73% at 31 March 2016; 12.80% at 31 December 2015).

Key figures at 30 June 2016

The Group has a presence in eighteen Regions of Italy, with 1,175 branches, 41 fewer compared with 1,216 at the end of 2015, as well as the head office of BPER (Europe) International s.a. in Luxembourg. The significant decrease in branches is mainly due to rationalisation as part of the transfer of Banca di Sassari's branches to Banco di Sardegna, with Banca di Sassari being transformed into the Group's consumer finance company, in line with the objectives and timing laid down in the 2015-2017 Business Plan.

The Group currently has 11,451 employees, an increase of 4 during the period (11,447 at the end of 2015).

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Significant subsequent events

On 14 July 2016, the BPER Group completed the sale without recourse of a bad loan portfolio to two separate investors that specialise in this sector: Algebris NPL Fund and Cerberus European Investments. The portfolio of bad loans that has been sold consists of around 15,000 positions for a total gross book value ("GBV") of approximately € 450 million[13]. The bad loans sold are primarily secured by collateral (87%) and relate to corporate counterparties; the unsecured portion (i.e. not backed by collateral) included in the sale amounts to approximately € 58 million (13% of the overall portfolio sold) and is made up of around 14,500 positions. The impact of this transaction on the consolidated income statement is not significant. The sale has distinctive features for the domestic market in terms of the size of the amount and the characteristics of the portfolio, as they are mainly secured corporate loans. BPER's priority objective in carrying out this deal is to reduce its stock of gross bad loans; in fact, a second important transaction is being scheduled for the second half of the year to sell another portfolio of bad loans, in this case mainly unsecured. These transactions should be viewed as part of a bad loan management strategy launched by the Group, which has as its objective to improve debt recovery and reduce the stock of bad loans. At the centre of the initiatives started there are the operations of the Group company "BPER Credit Management", with over 170 specialist members of staff, already operative since 1 January this year, who have been entrusted with the management of bad loans and the outsourcing of "small-mid tickets" to external specialised servicers.

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Outlook for operations

Even though there are differences between geographical areas, the international economic cycle has been showing the first timid signs of recovery, despite growth forecasts that reflect a high level of uncertainty resulting from the potential impact of the UK's departure from the European Union following the referendum on June 23. In Italy, there has been an improvement in economic activity, already visible in previous quarters, and partly confirmed by a slight increase in loans to customers and the continuation of the growth trend in new loans to both the private sector and to companies. In 2016, the trend of loans to customers should further improve, even if gradually, though the uncertainty generated by the UK's referendum result should not be overlooked. The level of short-term interest rates - now structurally negative - will continue to exert pressure on the return on assets, albeit with a gradual reduction in intensity; at the same time, the repricing of liabilities, together with the expected benefit from the new refinancing operations decided by the ECB on 10 March, will allow a further decline in the cost of funding aimed at limiting pressure on margins. A positive contribution to revenue is expected to come from fee income, especially in asset management and bancassurance. Payroll costs are expected to decline slightly, while administrative expenses will feel the effects of implementing various projects in the business plan. The cost of credit is expected to be significantly better than in 2015. All of these factors should bolster the Group's profitability prospects for the second half of the year.

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The Half-year Report of the BPER Group at 30 June 2016, together with the audit opinion, will be available at the head office, at Borsa Italiana S.p.A. and on the websites of the Bank and the Group (www.bper.it and www.gruppobper.it) as required by law.

To complete the information provided, we attach the consolidated balance sheet and income statement (split into quarters with comparative figures and reclassified) at 30 June 2016, as well as a summary of the main indicators.

Modena, 4 August 2016

Chief Executive Officer
Alessandro Vandelli

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The Manager responsible for preparing the Company's financial reports, Emilio Annovi, declares in accordance with art. 154-bis, para. 2, of Legislative Decree 58/1998 (Consolidated Finance Act) that the accounting information contained in this press release agrees with the books of account, accounting entries and supporting documentation.

Modena, 4 August 2016

Manager responsible for preparing the
Company’s financial reports
Emilio Annovi

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A conference call has been organised for **Thursday, 4 August 2016 at 6.45 p.m. (CET)** to explain the BPER Group's results at 30 June 2016.
The conference call, in English, will be chaired by **Alessandro Vandelli, the Chief Executive Officer**.

To join the conference call, key in the following number:

ITALY: +39 02 8020911
UK: +44 1212 818004
USA: +1 718 7058796

A set of slides supporting the presentation will be available the same day before the start of the conference call in the Investor Relations section of the website of the Bank and of the Group

www.bper.it and www.gruppobper.it.

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The press release is also available in the 1INFO storage device.

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Notes:

[1] With regard to the 2016 stress tests carried out by the ECB, we would like to point out the following: 1) the results shown in this press release are being published on the sole and exclusive initiative of the BPER Group and their publication does not imply an explicit request or approval by ECB; 2) it is not possible to infer from these published results any information regarding the ECB's top-down projections or any issues discussed during the Quality Assurance process carried out by it.

[2] As of 31 December 2015

[3] Extraordinary income: at the end of last year the VISA Inc. Group (USA) announced its intention to buy out the rest of its former subsidiary VISA Europe, which included among its shareholders Banca di Sassari and CartaSi, which is under the control of ICBPI, which was transferred simultaneously by the various participating banks, including BPER Banca. The contract for the sale of ICBPI's shareholding, in connection with the VISA transaction, envisaged an earn-out clause that would fall due within five years from execution of the sale, at which point an additional consideration would be potentially be calculated to take account of "VISA net proceeds". At the end of the various changes in company holdings and the expected authorisations from the Supervisory Authorities, in late June VISA paid the agreed consideration for the predominant part in cash, to which was added a portion in shares and an additional cash amount with deferred payment after three years. From this sale Banca di Sassari realised a capital gain of approximately € 20.8 million, which was accounted for at 30 June 2016. CartaSì also realised a substantial capital gain, part of which it will have to pay under the contract to BPER by the end of this year as its share of the earn-out; its value, for the portion considered certain in terms of quantity, has already been ascertained as of 30 June 2016 at € 9.4 million. Overall, the amount of extraordinary income relating to this transaction accounted for at 30 June 2016 in item 100 b) of the income statement amounted to € 30.2 million (before tax estimated at € 7.5 million).

Among the extraordinary income and expenses we should also mention the intervention to save Banca Tercas. Following the objections of the European Commission which considered this operation to be "state aid", the FITD arranged to return the amounts paid in 2014 to the banks, which are now members of the Voluntary Scheme set up within the same Fund, which in turn paid these amounts to the FITD - Voluntary Scheme. In this context, the BPER Group therefore recovered € 11.3 million (€ 11 million recorded as write-backs on other financial assets), whereas the repayment of the same amount was recorded in administrative expenses.

[4] The contribution to the SRF already paid for 2016 and recorded at 30 June under administrative expenses, comes to € 15.1 million (85% of the amount due for exercising the IPC option with a collateral value of € 2.2 million), versus an ordinary contribution recognised at 30 June 2015 to provisions for risks and charges for an amount of € 10.2 million).

[5] "Operating profit" as shown in the attached reclassified income statement is represented by the sum of the following income statement captions: Net interest and other banking income and Other operating charges/income net of indirect taxes recharged to customers (€ 59.3 million in the first half of 2016 and € 62.6 million in the first half of 2015), come in at € 1,054.0 million (€ 1,082.4 million at 30 June 2015).

[6] The LCR index at 30 June 2016 stands at 112.2%, whereas the NSFR index is put at well over 100% (it was 107.5% at 31 March 2016 and 110.9% at 31 December 2015).

[7] See note 3

[8] See note 5

[9] "Operating costs" defined as reported in the attached reclassified income statement and represented by the sum of the following income statement captions: payroll costs, other administrative expenses net of indirect taxes recovered from customers (see note 5), and of contributions to the SFR (see note 4) and to FIDT-SV (see note 3) and of amortisation and depreciation.

[10] The ratios have been calculated taking into account the share of profit realised during the half-year that can be allocated to equity of € 45.5 million (equal to around 11 bps). For this purpose, pursuant to art. 3 of Decision (EU) 656/2015 of the European Central Bank of 4 February 2015 and as required by art. 26 para. 2 of Regulation (EU) 575/2013 (CRR), BPER will send a special communication to the ECB (documentation required by arts. 4 and 5 of the said Decision, including certification by the Independent Auditors).

[11] The comparative ratios at 31 March 2016 are presented in the pro-forma version, taking into account the share of profit realised in the first quarter of 2016 that is allocable to equity (€ 22 million, equal to around 6 bps).

[12] The comparative ratios at 31 December 2015 are presented in the pro-forma version, taking into account the share of profit realised in the second half of 2015 that is allocable to equity (€ 118.6 million, equal to around 30 bps).

[13] See note 2

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Consolidated balance sheet as at 30 June 2016

(in thousands of Euro)

Assets	30.06.2016	31.12.2015	Change	% Change
10. Cash and cash equivalents	339,844	390,371	(50,527)	-12.94
20. Financial assets held for trading	769,336	790,403	(21,067)	-2.67
30. Financial assets designated at fair value through profit and loss	83,490	86,639	(3,149)	-3.63
40. Financial assets available for sale	9,511,427	8,022,164	1,489,263	18.56
50. Financial assets held to maturity	2,649,908	2,663,859	(13,951)	-0.52
60. Due from banks	1,045,431	1,087,313	(41,882)	-3.85
70. Loans to customers	43,989,709	43,702,561	287,148	0.66
80. Hedging derivatives	72,904	38,182	34,722	90.94
100. Equity investments	430,571	415,200	15,371	3.70
120. Property, plant and equipment	931,908	941,121	(9,213)	-0.98
130. Intangible assets	503,616	515,164	(11,548)	-2.24
of which: goodwill	377,141	380,395	(3,254)	-0.86
140. Tax assets	1,446,130	1,471,928	(25,798)	-1.75
a) current	209,914	208,238	1,676	0.80
b) deferred	1,236,216	1,263,690	(27,474)	-2.17
b1) of which L. 214/2011	1,046,584	1,072,618	(26,034)	-2.43
160. Other assets	676,116	1,136,326	(460,210)	-40.50
Total assets	**62,450,390**	**61,261,231**	**1,189,159**	**1.94**

(in thousands of Euro)

Liabilities and shareholders' equity	30.06.2016	31.12.2015	Change	% Change
10. Due to banks	8,086,124	5,522,992	2,563,132	46.41
20. Due to customers	35,954,498	35,887,658	66,840	0.19
30. Debt securities in issue	9,269,179	10,494,565	(1,225,386)	-11.68
40. Financial liabilities held for trading	271,429	242,149	29,280	12.09
50. Financial liabilities designated at fair value through profit and loss	440,975	873,558	(432,583)	-49.52
60. Hedging derivatives	42,888	23,715	19,173	80.85
80. Tax liabilities	119,846	109,013	10,833	9.94
a) current	4,391	3,911	480	12.27
b) deferred	115,455	105,102	10,353	9.85
100.Other liabilities	1,964,342	1,844,715	119,627	6.48
110. Provision for termination indemnities	209,736	200,669	9,067	4.52
120. Provisions for risks and charges	429,549	410,399	19,150	4.67
a) pensions and similar commitments	143,415	124,500	18,915	15.19
b) other provisions	286,134	285,899	235	0.08
140. Valuation reserves	148,121	148,982	(861)	-0.58
170. Reserves	2,407,667	2,288,125	119,542	5.22
180. Share premium reserve	930,073	930,073	-	-
190. Share capital	1,443,925	1,443,925	-	-
200. Treasury shares	(7,258)	(7,255)	(3)	0.04
210. Minority interests	674,554	627,287	47,267	7.54
220. Profit (Loss) for the period	64,742	220,661	(155,919)	-70.66
Total liabilities and shareholders' equity	**62,450,390**	**61,261,231**	**1,189,159**	**1.94**

Reclassified consolidated income statement as at 30 June 2016

For the sake of clarity, we provide below a breakdown of the aggregations and reclassifications with respect to the income statement format required by Circular no. 262/2005 of the Bank of Italy:

- "*Net result from financial activities*" includes items 80, 90, 100 and 110 in the standard reporting format;
- indirect tax recoveries, allocated for accounting purposes to item 220 *"Other operating charges/income"*, have been reclassified as a reduction in the related costs under *"Other administrative expenses"* (Euro 59,304 thousand at 30 June 2016 and Euro 62,627 thousand at 30 June 2015);
- *"Net adjustments to property, plant and equipment and intangible assets"* include captions 200 and 210 in the standard reporting format;
- *"Net impairment adjustments to AFS and HTM financial assets"* includes captions 130 b) and 130 c) in the reporting format;
- *"Gains (losses) on equity investments, disposal of investments and adjustments to goodwill"* include captions 240, 260 and 270 in the reporting format;
- "*Contributions to SRF, DGS, SRF, FITD*" has been shown separately from the specific accounting technical forms to give a better and clearer representation, as well as to leave the "*Administrative costs*" as a better reflection of the trend in the Group's operating costs. In particular, at 30 June 2016, this caption represents the component allocated for accounting purposes to administrative costs in relation to:
  - the 2016 contribution to the SRF (European Single Resolution Fund) for Euro 15,090 thousand;
  - the 2016 contribution to the DGS (Deposit Guarantee Schemes) for Euro 14 thousand, representing only the amount required of the Luxembourg subsidiary for the half-year;
  - the contribution to the FITD-SV (Voluntary Scheme) for the intervention on behalf of Banca Tercas for Euro 11,298 thousand.

  At 30 June 2015 the only caption involved was "*Provisions for risks and charges*" for the estimated amount of the 2015 contribution to the recently created SRF for Euro 10,250 thousand.

Please note that the caption "Contributions to SRF, DGS, FITD" was established at 30 June 2016 and that the comparative figures at 30 June 2015 have therefore been restated compared with those published at the time of the consolidated financial report at 30 June 2015. The table showing the reclassified quarterly figures has also been adjusted to this approach.

(in thousands of Euro)

Captions		30.06.2016	30.06.2015	Change	% Change
10+20	Net interest income	590,376	622,465	(32,089)	-5.16
40+50	Net commission income	358,118	359,853	(1,735)	-0.48
70	Dividends	8,818	13,832	(5,014)	-36.25
80+90+100+110	Net trading income	64,726	61,521	3,205	5.21
220 (*)	Other operating charges/income	31,968	24,712	7,256	29.36
	Operating income	**1,054,006**	**1,082,383**	**(28,377)**	**-2.62**
180 a)	Payroll	(398,241)	(396,205)	(2,036)	0.51
180 b) (*) (**)	Other administrative costs	(203,883)	(197,012)	(6,871)	3.49
200+210	Net adjustments to property, plant, equipment and intangible assets	(37,527)	(34,417)	(3,110)	9.04
	Operating costs	**(639,651)**	**(627,634)**	**(12,017)**	**1.91**
	Net operating income	**414,355**	**454,749**	**(40,394)**	**-8.88**
130 a)	Net impairment adjustments to loan	(276,102)	(297,741)	21,639	-7.27
130 b)+c)	Net impairment adjustments to financial assets available for sale and held to maturity	(7,202)	(8,899)	1,697	-19.07
130 d)	Net impairment adjustments to other financial assets	11,222	(1,118)	12,340	--
	Net impairment adjustments	**(272,082)**	**(307,758)**	**35,676**	**-11.59**
190 (***)	Net provisions for risks and charges	(22,125)	(26,535)	4,410	-16.62
###	Contributions to SRF, DGS, FITD	(26,402)	(10,250)	(16,152)	157.58
240+260+270	Gains (Losses) from equity instruments, on disposal of investments and adjustment to goodwill	(884)	5,400	(6,284)	-116.37
280	**Profit (Loss) from current operations before tax**	**92,862**	**115,606**	**(22,744)**	**-19.67**
290	Income taxes on current operations for the period	(27,793)	(34,601)	6,808	-19.68
320	**Net profit (loss) for the period**	**65,069**	**81,005**	**(15,936)**	**-19.67**
330	Net profit (loss) for the period pertaining to minority interests	(327)	(7,774)	7,447	-95.79
340	**Profit (Loss) for the period pertaining to the Parent Company**	**64,742**	**73,231**	**(8,489)**	**-11.59**
	Captions net of:				
(*)	Recovery of taxes	59,304	62,627	(3,323)	-5.31
(**)	Contributions to SRF, DGS, FITD	(26,402)	-		
(***)	Contributions to SRF, DGS, FITD	-	(10,250)		

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Reclassified consolidated income statement by quarter as at al 30 June 2016

(in thousands)

Captions		1st quarter 2016	2nd quarter 2016	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015
10+20	Net interest income	296,800	293,576	314,095	308,370	302,036	303,040
40+50	Net commission income	177,083	181,035	179,203	180,650	177,844	188,996
70	Dividends	86	8,732	249	13,583	457	1,664
80+90+ 100+110	Net trading income	15,662	49,064	46,058	15,463	20,361	266,002
220 (*)	Other operating charges/income	15,538	16,430	15,443	9,269	12,274	15,516
	Operating income	**505,169**	**548,837**	**555,048**	**527,335**	**512,972**	**775,218**
180 a)	Payroll	(196,586)	(201,655)	(199,322)	(196,883)	(232,374)	(196,474)
180 b) (*) (**)	Other administrative costs	(101,125)	(102,758)	(93,620)	(103,392)	(95,698)	(107,922)
210 + 220	Net adjustments to property, plant and equipment and intangible assets	(17,084)	(20,443)	(17,330)	(17,087)	(17,495)	(28,337)
	Operating costs	**(314,795)**	**(324,856)**	**(310,272)**	**(317,362)**	**(345,567)**	**(332,733)**
	Net operating income	**190,374**	**223,981**	**244,776**	**209,973**	**167,405**	**442,485**
130 a)	Net impairment adjustments to loans	(114,167)	(161,935)	(147,504)	(150,237)	(127,156)	(280,902)
130 b)+c)	Net impairment adjustments to financial assets available for sale and held to maturity	(3,678)	(3,524)	(6,347)	(2,552)	(7,563)	(10,881)
130 d)	Net impairment adjustments to other financial transactions	(3,666)	14,888	3,879	(4,997)	(348)	(3,192)
	Net impairment adjustments	**(121,511)**	**(150,571)**	**(149,972)**	**(157,786)**	**(135,067)**	**(294,975)**
190 (***)	Net provisions for risks and charges	(9,621)	(12,504)	(14,096)	(12,439)	(6,578)	(19,024)
###	Contributions to SRF, DGS, FITD	(15,000)	(11,402)	-	(10,250)	(8,862)	(42,432)
240+260 +270	Gains (Losses) from equity instruments, on disposal of investments and adjustments to goodwill	3,193	(4,077)	(1,773)	7,173	(6,846)	1,802
280	**Profit (Loss) from current operations before income tax**	**47,435**	**45,427**	**78,935**	**36,671**	**10,052**	**87,856**
290	Income taxes on current operations for the period	(14,104)	(13,689)	(27,234)	(7,367)	(2,313)	42,632
320	**Net profit (loss) for the period**	**33,331**	**31,738**	**51,701**	**29,304**	**7,739**	**130,488**
330	Net profit (loss) for the period pertaining to minority interests	(2,356)	2,029	(6,504)	(1,270)	1,616	7,587
340	**Profit (Loss) for the period pertaining to the Parent Company**	**30,975**	**33,767**	**45,197**	**28,034**	**9,355**	**138,075**
	Captions net of:						
(*)	Recovery of taxes	30,405	28,899	30,864	31,763	30,804	29,871
(**)	Contributions to SRF, DGS, FITD	(15,000)	(11,402)	-	-	-	(61,544)
(***)	Contributions to SRF, DGS, FITD	-	-	-	(10,250)	(8,862)	19,112

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Consolidated income statement as at 30 June 2016

(in thousands of Euro)

Captions	30.06.2016	30.06.2015	Change	% Change
10. Interest and similar income	758,133	846,488	(88,355)	-10.44
20. Interest and similar expense	(167,757)	(224,023)	56,266	-25.12
30. Net interest income	**590,376**	**622,465**	**(32,089)**	**-5.16**
40. Commission income	374,375	377,393	(3,018)	-0.80
50. Commission expense	(16,257)	(17,540)	1,283	-7.31
60. Net commission income	**358,118**	**359,853**	**(1,735)**	**-0.48**
70. Dividends and similar income	8,818	13,832	(5,014)	-36.25
80. Net trading income	(29,757)	14,404	(44,161)	-306.59
90. Net hedging gains (losses)	38	(165)	203	-123.03
100. Gains/losses on disposal or repurchase of:	92,475	44,320	48,155	108.65
a) loans	1,034	4,405	(3,371)	-76.53
b) financial assets available for sale	92,447	40,578	51,869	127.83
c) financial assets held to maturity	-	208	(208)	-100.00
d) financial liabilities	(1,006)	(871)	(135)	15.50
110. Net results on financial assets and liabilities designated at fair value	1,970	2,962	(992)	-33.49
120. Net interest and other banking income	**1,022,038**	**1,057,671**	**(35,633)**	**-3.37**
130. Net impairment adjustments to:	(272,082)	(307,758)	35,676	-11.59
a) loans	(276,102)	(297,741)	21,639	-7.27
b) financial assets available for sale	(7,202)	(8,899)	1,697	-19.07
d) other financial assets	11,222	(1,118)	12,340	--
140. Net profit from financial activities	**749,956**	**749,913**	**43**	**0.01**
180. Administrative costs:	(687,830)	(655,844)	(31,986)	4.88
a) payroll	(398,241)	(396,205)	(2,036)	0.51
b) other administrative costs	(289,589)	(259,639)	(29,950)	11.54
190. Net provision for risks and charges	(22,125)	(36,785)	14,660	-39.85
200. Net adjustments to property, plant and equipment	(21,087)	(19,115)	(1,972)	10.32
210. Net adjustments to intangible assets	(16,440)	(15,302)	(1,138)	7.44
220. Other operating charges/income	91,272	87,339	3,933	4.50
230. Operating costs	**(656,210)**	**(639,707)**	**(16,503)**	**2.58**
240. Profit (Loss) from equity investments	2,737	5,384	(2,647)	-49.16
260. Adjustments to goodwill	(3,254)	-	(3,254)	n.s.
270. Gains (Losses) on disposal of investments	(367)	16	(383)	--
280. Profit (Loss) from current operations before tax	**92,862**	**115,606**	**(22,744)**	**-19.67**
290. Income taxes on current operations for the period	(27,793)	(34,601)	6,808	-19.68
300. Profit (Loss) from current operations after tax	**65,069**	**81,005**	**(15,936)**	**-19.67**
320. Net profit (loss) for the period	**65,069**	**81,005**	**(15,936)**	**-19.67**
330. Net profit (loss) for the period pertaining to minority interests	(327)	(7,774)	7,447	-95.79
340. Profit (Loss) for the period pertaining to the Parent Company	**64,742**	**73,231**	**(8,489)**	**-11.59**

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Consolidated income statement by quarter as at 30 June 2016

(in thousands of Euro)

Captions	1st quarter 2016	2nd quarter 2016	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015
10. Interest and similar income	384,670	373,463	431,035	415,453	402,855	399,056
20. Interest and similar expense	(87,870)	(79,887)	(116,940)	(107,083)	(100,819)	(96,016)
30. Net interest income	**296,800**	**293,576**	**314,095**	**308,370**	**302,036**	**303,040**
40. Commission income	185,186	189,189	188,020	189,373	187,648	197,433
50. Commission expense	(8,103)	(8,154)	(8,817)	(8,723)	(9,804)	(8,437)
60. Net commission income	**177,083**	**181,035**	**179,203**	**180,650**	**177,844**	**188,996**
70. Dividends and similar income	86	8,732	249	13,583	457	1,664
80. Net trading income	(25,801)	(3,956)	20,413	(6,009)	591	17,836
90. Net hedging gains (losses)	120	(82)	355	(520)	(634)	(90)
100. Gains/losses on disposal or repurchase of:	37,346	55,129	28,438	15,882	22,809	248,337
a) loans	7	1,027	3,804	601	(200)	(182)
b) financial assets available for sale	38,237	54,210	25,092	15,486	23,048	249,545
c) financial assets held to maturity	-	-	(92)	300	-	13
d) financial liabilities	(898)	(108)	(366)	(505)	(39)	(1,039)
110. Net results on financial assets and liabilities designated at fair value	3,997	(2,027)	(3,148)	6,110	(2,405)	(81)
120. Net interest and other banking income	**489,631**	**532,407**	**539,605**	**518,066**	**500,698**	**759,702**
130. Net impairment adjustments to:	(121,511)	(150,571)	(149,972)	(157,786)	(135,067)	(294,975)
a) loans	(114,167)	(161,935)	(147,504)	(150,237)	(127,156)	(280,902)
b) financial assets available for sale	(3,678)	(3,524)	(6,347)	(2,552)	(7,563)	(10,881)
d) other financial assets	(3,666)	14,888	3,879	(4,997)	(348)	(3,192)
140. Net profit from financial activities	**368,120**	**381,836**	**389,633**	**360,280**	**365,631**	**464,727**
180. Administrative costs:	(343,116)	(344,714)	(323,806)	(332,038)	(358,876)	(395,811)
a) payroll	(196,586)	(201,655)	(199,322)	(196,883)	(232,374)	(196,474)
b) other administrative costs	(146,530)	(143,059)	(124,484)	(135,155)	(126,502)	(199,337)
190. Net provision for risks and charges	(9,621)	(12,504)	(14,096)	(22,689)	(15,440)	88
200. Net adjustments to property, plant and equipment	(8,983)	(12,104)	(9,944)	(9,171)	(9,295)	(19,926)
210. Net adjustments to intangible assets	(8,101)	(8,339)	(7,386)	(7,916)	(8,200)	(8,411)
220. Other operating charges/income	45,943	45,329	46,307	41,032	43,078	45,387
230. Operating costs	**(323,878)**	**(332,332)**	**(308,925)**	**(330,782)**	**(348,733)**	**(378,673)**
240. Profit (Loss) from equity investments	3,143	(406)	(1,886)	7,270	(6,843)	1,556
260. Adjustments to goodwill	-	(3,254)	-	-	-	-
270. Gains (Losses) on disposal of investments	50	(417)	113	(97)	(3)	246
280. Profit (Loss) from current operations before tax	**47,435**	**45,427**	**78,935**	**36,671**	**10,052**	**87,856**
290. Income taxes on current operations for the period	(14,104)	(13,689)	(27,234)	(7,367)	(2,313)	42,632
300. Profit (Loss) from current operations after tax	**33,331**	**31,738**	**51,701**	**29,304**	**7,739**	**130,488**
320. Net profit (Loss) for the period	**33,331**	**31,738**	**51,701**	**29,304**	**7,739**	**130,488**
330. Net profit (Loss) for the period pertaining to minority interests	(2,356)	2,029	(6,504)	(1,270)	1,616	7,587
340. Profit (Loss) for the period pertaining to the Parent Company	**30,975**	**33,767**	**45,197**	**28,034**	**9,355**	**138,075**

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Performance ratios as at 30 June 2016

Financial ratios	30.06.2016	2015 (*)
Structural ratios (%)		
net loans to customers/total assets	70.44%	71.34%
net loans and advances to customers/direct deposits from customers	96.33%	92.48%
financial assets/total assets	20.84%	18.88%
fixed assets/total assets	2.18%	2.21%
goodwill/total assets	0.60%	0.62%
direct deposits/total assets	86.07%	86.15%
deposits under management/indirect deposits	47.10%	48.48%
financial assets/tangible equity[1]	2.52	2.25
total tangible assets[2]/tangible equity	12.01	11.83
net interbank lending/borrowing (in thousands of Euro)	(7,040,693)	(4,435,679)
number of employees	11,451	11,447
number of national bank branches	1,175	1,216
Profitability ratios (%)		
ROE	2.68%	4.57%
ROTE	2.99%	5.10%
ROA (net profit/total assets)	0.10%	0.13%
Cost/income ratio[3]	60.69%	57.99%
Net adjustments to loans/net loans to customers	0.63%	0.69%
Basic EPS	0.135	0.152
Diluted EPS	0.135	0.152
Risk ratios (%)		
non-performing exposures/net loans to customers	14.53%	14.54%
net bad loans/net loans to customers	6.98%	6.81%
net unlikely to pay loans/net loans to customers	7.14%	7.15%
net past due loans/net loans to customers	0.41%	0.58%
adjustments to non-performing exposures/gross non-performing exposures	45.02%	44.22%
adjustments to bad loans/gross bad loans	58.48%	58.16%
adjustments to unlikely to pay loans/gross unlikely to pay loans	22.10%	21.88%
adjustments to past due loans/gross past due loans	8.24%	10.02%
adjustments to performing exposures/gross performing exposures	0.52%	0.54%
texas ratio[4]	111.86%	111.98%

(*) The comparative figures for the income statement are as at 30 June 2015, except for the ROE and the ROTE which are calculated on a yearly basis.

[1] *Tangible equity = total shareholders' equity net of intangible assets.*

[2] *Total tangible assets = total assets net of intangible assets.*

[3] *The cost/income Ratio has been calculated on the basis of the layout of the reclassified income statement (operating expenses/operating income); when calculated on the basis of the layouts provided by Circular no. 262 of the Bank of Italy the cost/income ratio is at 64.21% (60.48% as at June 30, 2015).*

[4] *The texas ratio is calculated as the relationship between total gross non-performing loans and net tangible equity, including minority interests, increased by total provisions for non-performing loans.*

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Financial ratios	30.06.2016	2015 (*)
Own Funds (Phased in)[5]		
Common Equity Tier 1 (CET1)	4,562,873	4,629,088
Own Funds	5,049,443	5,133,802
Risk-weighted assets (RWA)	31,487,601	40,101,688
Capital and liquidity ratios[6]		
Common Equity Ratio (CET1 Ratio) - Phased in	14.49%	11.54%
Tier 1 Ratio (T1 Ratio) - Phased in	14.55%	11.65%
Total Capital Ratio (TC Ratio) - Phased in	16.04%	12.80%
Common Equity Tier 1 Ratio (CET1 Ratio) - Fully Phased	14.13%	11.21%
Leverage Ratio - Phased in[7]	7.0%	7.1%
Leverage Ratio - Fully Phased[8]	6.9%	6.9%
Liquidity Coverage Ratio (LCR)	112.2%	136.1%
Net Stable Funding Ratio (NSFR)[9]	n.d.	110.9%

Non-financial ratios	30.06.2016	2015 (*)
Productivity ratios (in thousands of Euro)		
direct deposits per employee	3,987.83	4,128.22
loans and advances to customers per employee	3,841.56	3,817.82
assets managed per employee	1,303.12	1,286.45
assets administered per employee	1,463.88	1,366.99
core revenues[10] per employee	82.83	85.21
net interest and other banking income per employee	89.25	91.75
operating costs per employee	57.31	55.49

(*) The comparative figures for the income statement are as at 30 June 2015, except for the ROE and the ROTE which are calculated on a yearly basis.

[5] The comparative ratios at 31 December 2015 are presented in the pro-forma version, taking into account the share of profit realized in the second half of 2015 that is allocable to equity (€ 118.6 milion, equal to around 30 bps)
[6] See previous note.
[7] The ratio is calculated according to the provisions of Regulation (EU) 575/2013 (CRR), as amended by the Commission Delegated Regulation (EU) 2015/62.
[8] See previous note.
[9] The NSFR, not yet available, it is in any case estimated to exceed 100% (107.5% as at 31 March 2016).
[10] Core revenues = net interest income + net commission income.