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Banco Popolare Societa Cooperativa SCRL

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Banco Popolare Societa Cooperativa SCRL

Major Rating Factors

Counterparty Credit Rating
A-/Negative/A-2

Strengths:

- Leading market share in healthy North Italian provinces
- Extensive domestic retail and SME client base
- Good earnings generation at the former BPVN network

Weaknesses:

- Increased risk profile due to consolidation of weak Italease assets
- Vulnerability to current difficult economic context due to large loan exposure
- Weak financial performance of former BPI network

Rationale

The ratings on Italy-based Banco Popolare Società Cooperativa SCRL reflect Standard & Poor's Ratings Services' expectation of the bank's weaker credit and financial performance balanced against its solid franchise in its core retail and small and midsize enterprise (SME) businesses in wealthy north and central Italy.

BP's financial profile has weakened significantly following the bank's decision to consolidate a large part of Italian leasing company Banca Italease SpA's risky assets. We understand the bank will consolidate Italease's riskier assets, particularly large exposures to loans to real estate operators.

In addition, we believe that BP is vulnerable to Italy's deteriorated economy because of its large loan exposures to a few weak companies and poor revenue generation in part of its branch network.

BP reported a €333 million loss at the end of 2008, mainly as a result of impairments and provisions that it took to clean up its loan and equity portfolios. We expect earnings pressure to persist in 2009 and 2010, as revenues decline on the back of falling interest and fee and trading income and as the bank continues to take provisions against increased flows of impaired loans. The risks of the bank's announced consolidation of Italease are likely to heighten the squeeze on BP's profitability and asset quality.

We do not consider BP's capitalization as a rating strength, given the risks linked to consolidating Italease. The ratings already incorporate the bank's expressed willingness to ask to participate in the Italian's government's capitalization scheme for an amount of €1.45 billion. As a result, BP's Basel II Tier 1 capital ratio would increase to a more comfortable 8%, including the consolidation of Italease, compared with 6.4% at year-end 2008.

We view BP's liquidity profile as adequate overall in the context of much tighter access to funding.

BP has a strong market position in its core retail and SME banking businesses in the healthy northern regions of Italy. More than two-thirds of BP's total branches are located there, where the group has a 10% market share and ranks No. 3. Diversification by business has weakened, though it is still adequate, due to the bank's decision to sell some of its parabanking assets to focus on core businesses.

We consider BP to have high systemic importance within the Italian banking sector. Under Standard & Poor's criteria, we consider the Italian authorities to be "supportive" rather than "interventionist." Our ratings on BP consequently include the soft benefits derived from it being a bank in a regulated and supervised environment with access to extraordinary liquidity, such as that provided under the Italian government's support package. The ratings on BP reflect its stand-alone credit profile and do not include any explicit uplift for extraordinary government support.

Outlook

The negative outlook reflects the possibility that we could lower the ratings if BP's financial profile deteriorates significantly during 2009 and 2010. We would also downgrade BP if the bank does not complete its capital strengthening plan aiming for a Tier 1 capital ratio of 8%.

Conversely, we could revise the outlook to stable if BP's financial profile, including its capital position, shows resilience against the challenging economic and operating conditions ahead.

Business Profile: Strong And A Main Support For The Ratings

BP's strong business profile supports the ratings. The bank has strong market positions in its core retail and SME banking businesses in the northern regions of Italy, where it ranks No. 3 and has a 10% market share and more than two-thirds of its total branches. Most of the bank's business is confined to Italy, however, where economic risk is higher than the EU average.

BP is the product of the merger between Banco Popolare di Verona e Novara SCRL (BPVN) and Banca Popolare Italiana SCRL (BPI), previously two of Italy's largest "banche popolari" (cooperative banks). The geographic fit between the two banks is good, with minimum overlap in the branch networks. BP has the third-largest branch network in Italy, with almost 2,200 branches. Its market position is strong in the wealthy regions of northern Italy, such as Lombardy, Piedmont, Veneto, and Emilia Romagna (which together account for about 70% of total branches), and Tuscany in central Italy. Franchise quality is good overall, but better for the former BPVN than for the former BPI, where commercial performance suffered from the unsuccessful takeover bid for Antonveneta in 2005.

Diversification by business is adequate in our view. As for many cooperative banks, business traditionally focuses on retail and SME banking, centered on family enterprises. Still, BP has developed some business with large domestic corporations. It enjoys a good position in domestic private banking through 100%-owned Banca Aletti & C. SpA (A-/Negative/A-2).

Support And Ownership: A "Banca Popolare"

We consider BP to have high systemic importance within the Italian banking sector. Under Standard & Poor's criteria, we consider the Italian authorities to be supportive rather than interventionist. Our ratings on BP consequently include the soft benefits derived from it being a bank in a regulated and supervised environment with access to extraordinary liquidity, such as that provided under the Italian government's support package. The ratings on BP reflect its stand-alone credit profile and do not include any explicit uplift for extraordinary government support.

Mainly as a consequence of its mutual status, BP has a diffuse ownership structure. The bank is listed on the Milan Stock Exchange.

BP is subject to special legislation regarding its ownership structure. In particular, each shareholder has a single voting share irrespective of the number of shares held, and individual shareholders are allowed to hold a maximum of 0.5% of share capital. Mutual funds are not subject to this limit.

BP benefits from deep roots in the local communities of BPVN and BPI. A strong relationship links customers, shareholders, and employees, and is at the heart of BP's long-term relationship with all its stakeholders. BP's legal status is unlikely to change in the next few years.

Institutional investors account for a high share of BP's shareholders, which is unusual for banche popolari.

Strategy: Adapted To Integrate Italease's Risky Assets And To Restore Capital

BP had to adapt its short-term strategic targets as a consequence of significant asset deterioration at 30% owned Italease, the drop in the bank's capitalization resulting from aggressive capital management in 2007, and balance sheet clean-up in 2008. This has raised BP's risk profile and made the bank more vulnerable than peers to current weak domestic economic prospects, given the challenge to maintain control of credit quality.

Because of further recent deterioration following Italease's already weak asset quality during 2008, BP decided in March 2009 to directly assume the leasing company's riskier assets by fully consolidating all leasing loans originated through the direct and agent channel, particularly large loan exposures to real estate operators. BP agreed on the restructuring plan with Italease's other main bank shareholders, who will keep a significant share of less risky assets originated through bank channels.

In our opinion, the risks that BP now faces by consolidating these assets far exceed the liabilities linked to its 30% stake in Italease. The immediate consequence on BP's financial profile is a 107 basis-point drop in its Tier 1 capital ratio. We believe that additional provisioning may be needed in the coming quarters, depending on domestic economic trends, in turn putting a strain on BP's profitability and asset quality.

BP undertook several capital strengthening initiatives in 2008 and early 2009 to withstand various previous actions:

- The sizeable drop in capital resulting from aggressive capital management in 2007 when the bank paid a large extraordinary dividend to BPI shareholders and repurchased BPVN and BPI shares;
- The substantial clean-up of the loan portfolio carried out by new management in late 2008; and
- The decision to consolidate a large portion of Italease's risky assets.

BP's main actions to raise capital include the sale of most of its real estate assets to a fund and the contribution of its wholly owned consumer finance company Ducato to a joint venture with France-based Crédit Agricole S.A.(AA-/Stable/A-1+). Furthermore, BP has asked to participate in the Italian government's capitalization scheme, for an amount of €1.45 billion. After completing these moves, BP's Tier 1 regulatory ratio would stand at a more comfortable 8%, including the consolidation of Italease, compared with 6.4% at year-end-2008.

Risk Profile And Management: Higher-Than-Peers Risk Profile

BP's creditworthiness is penalized by a risk profile that is higher than the average for similarly rated peers. This reflects the high credit risk that the bank will confront when it consolidates a large part of Italease's riskier assets, and BP's large loan exposures to a few weak companies. Still, the bank enjoys an overall adequate funding structure, in the context of much tighter access to funding. The bank has reduced market risk in its trading activity to average levels.

Enterprise risk management: Adequate

BP's enterprise risk management is adequate, we believe, and benefits from the bank's reduced risk appetite and more conservative provisioning policy than in the past that new top management adopted at year-end 2008. Policies established at the parent level have good reach within the group.

Credit risk: Below the average for similarly rated peers, reflecting a few weak, large positions inherited from BPI

BP's asset quality is below average for the 'A-' rating category. This reflects the bank's decision to consolidate Italease's riskier assets, particularly big loan exposures to real estate operators, and BP's large loan exposures to a few weak companies. As such, we believe that the bank is more vulnerable than peers to the worsening economic conditions in Italy. Positively, the bank booked significant credit provisions at year-end 2008, particularly covering risky assets inherited when acquiring Lodi, building some cushioning to absorb likely further deterioration.

As a result of its decision to take control of Italease, BP will consolidate a significant amount of the leasing company's assets. This includes about €5 billion of nonperforming assets (NPAs), mainly big exposures to real estate operators, and €8.4 billion of performing leasing assets originated through the direct and agent channel, primarily in real estate leasing. Most NPAs comprise watchlist loans on some prestigious properties located in Rome and Milan, for which BP will keep ownership. Nevertheless, we believe that there are significant risks embedded in these exposures, especially given the tough environment for the domestic real estate market.

Quality of assets at BP is also hampered in our view by the bank's large loan exposures to a few weak companies, mainly inherited when acquiring Lodi in 2007. Still, BP has significantly provisioned for these loans in the past few years, including the deep cleaning that new top management conducted in late 2008. We believe that these loan exposures weaken the bank's credit positions, however, especially when we take into consideration Italy's negative economic prospects.

BP's reported stock of NPAs climbed considerably to €5.5 billion at year-end 2008 year-on-year (up 37% to 7.3% of gross customer loans, excluding the consolidation of Italease), mainly due to the cleaning exercise that new management undertook. A large part of the increase relates to watchlist loans. Consequently, cost of risk grew to 144 basis points. The specific coverage rate stood at a low 35%, much weaker than the average for peers, both domestic and international. This mainly reflects historically low coverage at the former BPVN and the significant share of tangible collateral that guaranties such loans.

For the next few quarters we still expect inflows of NPLs and cost of risk to be rather sustained, given the domestic economic environment, but to be lower than the levels we saw in 2008.

BP's loan portfolio is well diversified by economic sector and is almost entirely domestic. Most loans are to SMEs and small businesses, illustrating the bank's mission to sustain local economies. Most of the bank's exposure is to wealthy northern Italy. At year-end 2008, the former BPVN's Banco Popolare di Verona's (BPV) network (including that of Credito Bergamasco; A-/Negative/A-2) accounted for 44% of BP's total loans, the former BPI's network for 25%, and Banca Popolare di Novara's (BPN) network for 15%. Lending growth is likely to be contained in 2009 and to be directed mainly to SMEs. At the same time, we anticipate that BP will further reduce loans to large corporate customers.

Market risk: Reduced to contained levels

BP's appetite for trading risk is set to remain contained, in line with prudent guidelines at the former BPVN.

At year-end 2008, BP's securities portfolio was made up mainly of Italian government bonds and other investment-grade securities, with moderate exposure to structured products and hedge funds. Value-at-risk limits are reasonable compared with group earnings and capital. BP shows no exposure to U.S.-subprime-related notes.

As with other retail-oriented banks, BP's interest rate risk on the balance sheet stems mainly from a large proportion of nonsensitive deposits. We expect the bank to suffer from the current low interest rate context, after having benefited from better margins in 2006 and 2007 when interest rates rose.

Funding and liquidity risk: Enhanced by large deposit base, but more stretched than in the past

BP's liquidity profile is adequate overall in the context of much tighter access to funding. Deep territorial roots in north and central Italy tap a large and stable pool of customer deposits that covers most financing needs.

BP has managed to address its increasing funding needs in the past few years by adequately diversifying its sources in wholesale markets. BP's main instruments include European medium-term notes, commercial paper, certificates of deposit, private placements, and interbank funds. BP was a net interbank lender for €4.1 billion at year-end 2008, but this largely reflects the loans it granted to Italease.

The maturity profile of the bank's long-term wholesale funding is adequate, although maturities for the next couple of years stand to increase somewhat as a result of the Italease consolidation.

The portion of BP's securities portfolio that is eligible for repurchase agreements with the European Central Bank (about €9.7 billion at end-March 2009) enhances the bank's liquidity profile.

The current scenario of difficult access to funding is forcing the bank to increase its reliance on customer sources, which are currently financing most of the commercial growth.

Profitability: High Credit Provisions Impair Good Operating Profit

BP's profitability significantly deteriorated in 2007 and 2008 compared with the healthy performances at the former BPVN through 2006. The decline mainly reflects the acquisition of weak BPI and the worsening of Italease's financials. As a consequence, good revenue generation at the former BPVN branch network and the bank's lean cost structure were not sufficient to compensate for the huge increase in credit provisions and impairment charges covering Italease's equity holdings. BP consequently posted a €333 million loss in 2008, after a significant drop in earnings in 2007.

We expect earnings pressure to persist in 2009 and 2010, as revenues decline on the back of falling interest and fee and trading income and as the bank continues to take provisions against increased flows of impaired loans. The risks of the bank's announced consolidation of Italease are likely to add to the squeeze on BP's profitability.

BP's gross operating profit displays metrics in line with those of peers. However, it masks dissimilar trends at the bank. The former BPVN network has strong earnings, sustained by good pricing power, lean costs and reduced provisioning needs, with an increasing contribution from the BPN network. In contrast, profitability at the former BPI is mediocre, reflecting poor revenue generation and low branch network productivity.

High credit provisions and impairment charges covering other assets have markedly prejudiced BP's earnings, notwithstanding the large nonrecurrent gains generated in 2007 and 2008. In 2008, BP performed a significant clean-up of the loan portfolio, mainly focusing on credit positions inherited from BPI. The bank wrote off the value of Italease's equity stakes, following the huge drop in its capital. In 2007, BP had already booked credit provisions related to the former BPI's loan portfolio and had written off Italease and HOPA stakes.

We believe that BP needs to maintain strong control on credit quality in 2009, given the increased risks stemming from the consolidation of Italease's riskier assets and BP's large loan exposures to a few weak companies.

Capital: Still Lean, Due To The Bank's High Risk Profile

BP is in the process of strengthening its capital metrics to withstand its aggressive capital management in 2007, the recent significant clean-up of the loan portfolio, and its decision to incorporate a large part of Italease's riskier assets. After completing these actions, which include the bank's request for €1.45 billion of the Italian government's hybrid notes, BP's Tier 1 regulatory ratio would reach a more comfortable 8%, compared with 6.4% at end-2008. Still, we do not consider BP's capitalization as a rating strength, given the risks associated with Italease's assets.

We expect quality of capital to significantly weaken in 2009 when the state will subscribe €1.45 billion of hybrid notes, representing a high 25% of BP's Tier 1 capital. We treat hybrid capital instruments as temporary and do not classify them as core capital in our metrics. At year-end 2008, BP's Tier 1 ratio already included about 20% corresponding to Tier 1 hybrid instruments.

BP executed several capital strengthening initiatives in 2008 and early 2009, including selling most of its real estate assets to a fund and contributing its wholly owned consumer finance company Ducato to a joint venture with Crédit Agricole.

BP started reporting regulatory ratios under the Basel II standardized approach in March 2008, with no significant gain compared with Basel I. Within the next couple of years, the bank plans to move to the internal ratings-based foundation approach, which should result in some capital relief. We will monitor the extent and use of such capital relief.

Purchase price allocation for the BPI acquisition was beneficial for BP's Tier 1 capital by about €500 million, or about 10 basis points, mainly related to performing loan revaluations, in line with other similar deals in Italy.

Table 1

Banco Popolare Società Cooperativa SCRL Balance Sheet Statistics

							Breakdown as a % of assets (adj.)				
(Mil. €)	**2008**	**2007**	**2006**	**2005**	**2004**	**-**	**2008**	**2007**	**2006**	**2005**	**2004**
Assets											
Cash and money market instruments	14,441	16,764	9,556	6,436	5,581		12.44	13.75	14.00	10.84	10.55
Securities	9,428	11,182	9,164	8,521	5,637		8.12	9.17	13.43	14.35	10.65
Trading securities (marked to market)	6,962	7,768	6,856	6,330	0		6.00	6.37	10.05	10.66	0.00
Nontrading securities	2,467	3,414	2,308	2,191	5,637		2.13	2.80	3.38	3.69	10.65
Customer loans (gross)	82,525	84,992	45,610	41,061	37,184		71.12	69.69	66.83	69.17	70.27
Public sector/government	531	663	262	320	264		0.46	0.54	0.38	0.54	0.50
Residential real estate loans	N.A.	8,560	6,765	4,997	N.A.		N.A.	7.02	9.91	8.42	N.A.
Total real estate loans	N.A.	N.A.	N.A.	0	10,696		N.A.	N.A.	N.A.	0.00	20.21
Commercial real estate loans	N.A.	2,144	1,528	1,159	N.A.		N.A.	1.76	2.24	1.95	N.A.
All other loans	81,994	73,625	37,056	34,585	26,223		70.66	60.37	54.30	58.26	49.55
Loan loss reserves	2,750	2,323	881	1,033	870		2.37	1.90	1.29	1.74	1.64
Customer loans (net)	79,776	82,669	44,729	40,028	36,314		68.75	67.78	65.54	67.43	68.62
Earning assets	104,213	109,294	63,284	54,155	47,605		89.81	89.62	92.73	91.23	89.96
Equity interests/participations (nonfinancial)	1,237	472	341	241	496		1.07	0.39	0.50	0.41	0.94
Inv. in unconsolidated subsidiaries (financial co.)	220	399	456	190	144		0.19	0.33	0.67	0.32	0.27
Intangibles (nonservicing)	5,333	6,434	448	396	400		4.60	5.28	0.66	0.67	0.76
Fixed assets	1,329	1,506	538	536	699		1.15	1.23	0.79	0.90	1.32
Derivatives credit amount	3,174	2,311	1,603	1,577	N.A.		2.74	1.90	2.35	2.66	N.A.
Accrued receivables	0	0	0	0	491		0.00	0.00	0.00	0.00	0.93
All other assets	6,437	6,657	1,859	1,834	3,556		5.55	5.46	2.72	3.09	6.72
Total reported assets	121,375	128,393	68,695	59,758	53,318		104.60	105.28	100.66	100.67	100.76
Less nonservicing intangibles+ I/O strips	(5,333)	(6,434)	(448)	(396)	(400)		(4.60)	(5.28)	(0.66)	(0.67)	(0.76)
Adjusted assets	116,042	121,959	68,247	59,363	52,918		100.00	100.00	100.00	100.00	100.00
							Breakdown as a % of liabilities + equity				
	2008	**2007**	**2006**	**2005**	**2004**		**2008**	**2007**	**2006**	**2005**	**2004**
Liabilities											
Total deposits	55,485	60,881	32,262	26,965	30,923		45.71	47.42	46.96	45.12	58.00
Noncore deposits	7,026	12,480	8,116	5,225	9,421		5.79	9.72	11.81	8.74	17.67
Core/customer deposits	48,459	48,401	24,146	21,740	21,502		39.92	37.70	35.15	36.38	40.33
Repurchase agreements	4,212	3,353	4,760	5,903	3,059		3.47	2.61	6.93	9.88	5.74
Other borrowings	40,531	40,855	21,669	18,215	11,082		33.39	31.82	31.54	30.48	20.78
Other liabilities	9,713	10,981	4,988	4,798	4,611		8.00	8.55	7.26	8.03	8.65
Total liabilities	109,940	116,071	63,678	55,881	49,675		90.58	90.40	92.70	93.51	93.17
Total shareholders' equity	11,435	12,322	5,017	4,138	3,828		9.42	9.60	7.30	6.92	7.18
Preferred stock and other capital	1,250	1,250	0	0	0		1.03	0.97	0.00	0.00	0.00

Table 1

Banco Popolare Società Cooperativa SCRL Balance Sheet Statistics (cont.)										
Minority interest-equity	404	403	145	117	112	0.33	0.31	0.21	0.20	0.21
Common shareholders' equity (reported)	9,781	10,669	4,872	4,021	3,717	8.06	8.31	7.09	6.73	6.97
Share capital and surplus	7,186	7,186	1,553	1,527	1,498	5.92	5.60	2.26	2.55	2.81
Revaluation reserve	(9)	142	241	163	72	(0.01)	0.11	0.35	0.27	0.13
General banking risk reserves	N.A.	N.A.	N.A.	N.A.	58	N.A.	N.A.	N.A.	N.A.	0.11
Reserves (incl. inflation revaluations)	2,938	2,725	2,045	1,734	1,678	2.42	2.12	2.98	2.90	3.15
Retained profits	(333)	617	1,033	597	411	(0.27)	0.48	1.50	1.00	0.77
Memo: Dividends (not yet distributed)	0	(324)	(312)	(261)	(185)					
Total liabilities and equity	121,375	128,393	68,695	60,019	53,504	100.00	100.00	100.00	100.44	100.35
Equity Reconciliation Table										
Common shareholders' equity (reported)	9,781	10,669	4,872	4,021	3,717					
+ Minority Interest (equity)	404	403	145	117	112					
- Dividends (not yet distributed)	0	(324)	(312)	(261)	(185)					
- Revaluation reserves	9	(142)	(241)	(163)	(72)					
- Nonservicing Intangibles	(5,333)	(6,434)	(448)	(396)	(400)					
Adjusted common equity	4,861	4,172	4,017	3,318	3,171					
+ Admissible Prefs and hybrids	1,250	1,250	0	0	0					
- Equity in Unconsolidated Subsidiaries	(220)	(399)	(456)	(190)	(144)					
- Capital of Insurance Subsidiaries	(103)	(100)	(95)	(194)	(70)					
Adjusted total equity	5,787	4,924	3,466	2,935	2,957					

Financial statements are for Banco Popolare di Verona e Novara SCRL until 2006 and are pro forma in 2007, as they include the contribution of Banca Popolare Italiana for the entire year. Financial statements are audited, consolidated, and prepared according to IFRS since 2005 and under Italian GAAP for prior years. N.A.--Not available.

Table 2

Banco Popolare Società Cooperativa SCRL Profit And Loss Statement Statistics											
							Adj. avg. assets (%)				
(Mil. €)	**2008**	**2007**	**2006**	**2005**	**2004**	**-**	**2008**	**2007**	**2006**	**2005**	**2004**
Profitability											
Interest income	6,276	5,101	2,676	2,141	1,921		5.27	5.36	4.19	3.81	3.80
Interest expense	3,941	2,768	1,255	836	743		3.31	2.91	1.97	1.49	1.47
Net interest income	2,335	2,333	1,420	1,305	1,178		1.96	2.45	2.23	2.32	2.33
Operating noninterest income	1,583	1,523	1,371	1,314	1,194		1.33	1.60	2.15	2.34	2.36
Fees and commissions	1,061	1,210	844	833	751		0.89	1.27	1.32	1.48	1.49
Equity in earnings of unconsolidated subsidiaries	(271)	(442)	44	76	42		(0.23)	(0.47)	0.07	0.14	0.08
Trading gains	(539)	82	136	83	100		(0.45)	0.09	0.21	0.15	0.20
Other market-sensitive income	29	143	8	14	N.A.		0.02	0.15	0.01	0.03	N.A.
Other noninterest income	1,304	530	340	309	301		1.10	0.56	0.53	0.55	0.60

Table 2

Banco Popolare Società Cooperativa SCRL Profit And Loss Statement Statistics (cont.)										
Operating revenues	3,919	3,856	2,791	2,619	2,372	3.29	4.05	4.37	4.67	4.69
Noninterest expenses	3,455	2,547	1,431	1,458	1,411	2.90	2.68	2.24	2.60	2.79
Personnel expenses	1,630	1,491	884	906	832	1.37	1.57	1.39	1.61	1.65
Other general and administrative expense	1,076	871	470	474	461	0.90	0.92	0.74	0.84	0.91
Depreciation	749	186	77	77	118	0.63	0.20	0.12	0.14	0.23
Net operating income before loss provisions	464	1,308	1,360	1,161	962	0.39	1.38	2.13	2.07	1.90
Credit loss provisions (net new)	1,431	596	213	150	151	1.20	0.63	0.33	0.27	0.30
Net operating income after loss provisions	(967)	713	1,147	1,012	811	(0.81)	0.75	1.80	1.80	1.60
Nonrecurring/special income	729	1,037	469	1	29	0.61	1.09	0.73	0.00	0.06
Nonrecurring/special expense	204	521	63	32	82	0.17	0.55	0.10	0.06	0.16
Amortization of goodwill and intangibles	0	1	0	0	47	0.00	0.00	0.00	0.00	0.09
Pretax profit	(442)	1,227	1,552	981	711	(0.37)	1.29	2.43	1.75	1.41
Tax expense/credit	(140)	544	488	369	284	(0.12)	0.57	0.76	0.66	0.56
Net income before minority interest	(302)	684	1,064	613	428	(0.25)	0.72	1.67	1.09	0.85
Minority interest in consolidated subsidiaries	31	49	31	16	17	0.03	0.05	0.05	0.03	0.03
Net income before extraordinaries	(333)	635	1,033	597	411	(0.28)	0.67	1.62	1.06	0.81
Net income after extraordinaries	(333)	635	1,033	597	411	(0.28)	0.67	1.62	1.06	0.81
Core Earnings Reconciliation										
Net Income (before Minority Interest)	(302)	684	1,064	613	428					
- Nonrecurring/Special Income	(729)	(1,037)	(469)	(1)	(29)					
+ Nonrecurring/Special Expense	204	521	63	32	82					
+/- Tax Impact of Adjustments	166	229	127	(12)	(21)					
+ Amortization/ Impairment of Goodwill/ Intangibles	0	1	0	0	47					
Core earnings	(661)	397	786	632	506	(0.56)	0.42	1.23	1.13	1.00
	2008	**2007**	**2006**	**2005**	**2004**					
Asset Quality										
Nonperforming assets	5,526	4,233	1,677	2,009	2,187					
Nonaccrual loans	5,376	4,088	1,618	1,926	2,187					
Restructured loans	151	145	59	82	0					
Classified loans (substandard, doubtful, loss)	N.A.	N.A.	77	140	N.A.					
Average balance sheet										
Average customer loans	81,222	63,699	42,379	38,171	34,088					
Average earning assets	106,754	86,289	58,719	50,880	45,561					
Average assets	124,884	98,544	64,227	56,538	50,962					
Average total deposits	58,183	46,571	29,614	28,944	28,865					
Average interest-bearing liabilities	102,659	81,890	54,887	48,074	42,969					
Average common equity	10,225	7,771	4,447	3,869	3,594					

Table 2

Banco Popolare Società Cooperativa SCRL Profit And Loss Statement Statistics (cont.)					
Average adjusted assets	119,001	95,103	63,805	56,140	50,536
Other data					
Number of employees (end of period, actual)	20,704	N.A.	12,460	12,596	N.A.
Number of branches	2,265	2,254	1,201	1,190	1,154
Total assets under management	31,301	45,050	31,144	31,898	30,269
Assets under administration	43,790	51,278	43,230	41,107	35,306
Off-balance-sheet credit equivalents	0	0	11,183	0	9,082

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Table 3

Banco Popolare Società Cooperativa SCRL Ratio Analysis					
	2008	**2007**	**2006**	**2005**	**2004**
ANNUAL GROWTH (%)					
Customer loans (gross)	(2.90)	86.34	11.08	10.43	13.40
Loss reserves	18.37	163.81	(14.78)	18.79	(6.14)
Adjusted assets	(4.85)	78.70	14.97	12.18	9.89
Customer deposits	0.12	100.45	11.07	1.11	12.53
Total equity	(7.20)	145.62	21.23	8.09	5.79
Operating revenues	1.63	38.14	6.58	10.41	2.66
Noninterest expense	35.62	77.99	(1.81)	3.34	(0.38)
Net operating income before provisions	(64.53)	(3.80)	17.10	20.79	7.48
Loan loss provisions	140.21	179.16	42.73	(0.95)	2.05
Net operating income after provisions	(235.67)	(37.84)	13.32	24.84	8.56
Pretax profit	(136.01)	(20.91)	58.17	37.94	26.41
Net income	(144.20)	(35.75)	73.65	43.22	27.97
	2008	**2007**	**2006**	**2005**	**2004**
PROFITABILITY (%)					
Interest Margin Analysis					
Net interest income (taxable equiv.)/avg. earning assets	2.19	2.70	2.42	2.56	2.58
Net interest spread	2.04	2.53	2.27	2.47	2.49
Interest income (taxable equiv.)/avg. earning assets	5.88	5.91	4.56	4.21	4.22
Interest expense/avg. interest-bearing liabilities	3.84	3.38	2.29	1.74	1.73
Revenue Analysis					
Net interest income/revenues	59.59	60.50	50.88	49.81	49.65
Fee income/revenues	27.08	31.38	30.24	31.79	31.66
Market-sensitive income/revenues	(13.03)	5.83	5.14	3.69	4.21
Noninterest income/revenues	40.41	39.50	49.12	50.19	50.35
Personnel expense/revenues	41.59	38.66	31.68	34.61	35.07
Noninterest expense/revenues	88.16	66.07	51.27	55.65	59.46
Noninterest expense/revenues less investment gains	88.81	68.61	51.42	55.96	59.46

Table 3

Banco Popolare Società Cooperativa SCRL Ratio Analysis (cont.)					
Net operating income before provision/revenues	11.84	33.93	48.73	44.35	40.54
Net operating income after provisions/revenues	(24.68)	18.48	41.08	38.64	34.17
New loan loss provisions/revenues	36.52	15.45	7.65	5.71	6.36
Net nonrecurring/abnormal income/revenues	13.40	13.38	14.52	(1.17)	(2.22)
Pretax profit/revenues	(11.28)	31.83	55.60	37.47	29.99
Tax/pretax profit	31.64	44.31	31.45	37.56	39.86
Core Earnings/Revenues	(16.87)	10.31	28.16	24.13	21.33
	2008	**2007**	**2006**	**2005**	**2004**
Other Returns					
Pretax profit/avg. risk assets (%)	0.00	1.71	3.25	2.29	1.82
Revenues/avg. risk assets (%)	N.A.	5.38	5.84	6.12	6.06
Net operating income before LLP/LLP	32.43	219.64	637.34	776.80	636.97
Net operating income before loss provisions/avg. risk assets (%)	N.A.	1.83	2.85	2.71	2.46
Net operating income after loss provisions/avg. risk assets (%)	N.A.	0.99	2.40	2.36	2.07
Net income before minority interest/avg. adjusted assets	(0.25)	0.72	1.67	1.09	0.85
Net income/employee (currency unit)	(14,424)	31,339	85,113	47,964	33,911
Non-interest expenses/average adjusted assets	2.90	2.68	2.24	2.60	2.79
Personnel expense/employee (currency unit)	77,798	68,343	70,736	70,949	65,945
Core earnings/average risk-weighted assets	N.A.	0.55	1.65	1.48	1.29
Core earnings/average adjusted assets	(0.56)	0.42	1.23	1.13	1.00
Core earnings/ Average ACE (ROE)	(14.64)	9.71	21.43	19.47	16.56
	2008	**2007**	**2006**	**2005**	**2004**
FUNDING AND LIQUIDITY (%)					
Customer deposits/funding base	48.35	46.06	41.14	42.56	47.71
Total loans/customer deposits	170.30	175.60	188.89	188.87	172.93
Total loans/customer deposits + long-term funds	127.73	136.70	147.41	152.53	108.81
Customer loans (net)/assets (adj.)	68.75	67.78	65.54	67.43	68.62
Parent Only Analysis					
	2008	**2007**	**2006**	**2005**	**2004**
CAPITALIZATION (%)					
Adjusted common equity/risk assets	N.A.	4.52	7.87	7.45	7.72
Internal capital generation/prior year's equity	(3.12)	6.38	17.94	9.04	6.52
Tier 1 capital ratio	6.39	5.17	7.66	7.39	7.63
Regulatory total capital ratio	10.57	8.73	9.92	8.55	9.48
Adjusted total equity/adjusted assets	4.99	4.04	5.08	4.94	5.59
Adjusted total equity/adjusted assets + securitizations	4.99	4.04	5.08	4.94	5.59
Adjusted total equity/risk assets	N.A.	5.33	6.79	6.59	7.20
Adjusted total equity plus LLR (specific)/customer loans (gross)	10.34	8.53	9.53	9.66	10.29
Common dividend payout ratio	0.00	51.07	30.16	43.72	44.99

Table 3

Banco Popolare Società Cooperativa SCRL Ratio Analysis (cont.)

	2008	2007	2006	2005	2004
ASSET QUALITY (%)					
New loan loss provisions/avg. customer loans (net)	1.76	0.94	0.50	0.39	0.44
Loan loss reserves/customer loans (gross)	3.33	2.73	1.93	2.52	2.34
Credit-loss reserves/risk assets	N.A.	2.52	1.73	2.32	2.12
Nonperforming assets (NPA)/customer loans + ORE	6.70	4.98	3.68	4.89	5.88
NPA (excl. delinquencies)/customer loans + ORE	6.70	4.98	3.68	4.89	5.88
Net NPA/customer loans (net) + ORE	3.48	2.31	1.78	2.44	3.63
NPA (net specifics)/customer loans (net specifics)	3.48	2.31	1.78	2.44	3.63
Loan loss reserves/NPA (gross)	49.76	54.88	52.51	51.44	39.78

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Ratings Detail (As Of April 27, 2009)*

Banco Popolare Societa Cooperativa SCRL	
Counterparty Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	
Foreign Currency	A-2
Junior Subordinated (2 Issues)	BBB
Preferred Stock (2 Issues)	BB+
Senior Unsecured (30 Issues)	A-
Short-Term Debt (1 Issue)	A-2
Subordinated (4 Issues)	BBB+
Counterparty Credit Ratings History	
26-Mar-2009	A-/Negative/A-2
20-Feb-2009	A/Watch Neg/A-1
20-Nov-2007	A/Negative/A-1
02-Jul-2007	A/Stable/A-1
Sovereign Rating	
Italy (Republic of)	A+/Stable/A-1+
Related Entities	
Banca Aletti & C. SpA	
Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Credito Bergamasco	
Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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