Banca Popolare di Vicenza

PRESS RELEASE

THE BOARD OF DIRECTORS APPROVES THE DRAFT PARENT COMPANY AND CONSOLIDATED ANNUAL REPORT AS AT 31 DECEMBER 2016

- **ACTIONS AIMED AT THE REORGANIZATION PROCESS OF BPVI GROUP BY THE NEW BOD ARE STILL ONGOING:**

  - **NEW 2017-2021 BUSINESS PLAN**, SUBJECT TO ECB ASSESSMENT. THE NEW PLAN INCLUDES THE MERGER WITH VENETO BANCA GROUP AS A NECESSARY CONDITION OF THE REORGANIZATION PROCESS
  - COMPETENT AUTHORITIES INFORMED OF THE INTENTION TO APLLY TO THE "PRECAUTIONARY RECAPITALIZATION " BY THE STATE
  - **COMPLETION OF THE SETTLEMENT OFFER TO BPVI SHAREHOLDERS**. WITH A REMARKABLE ACCEPTANCE 66,712 SHAREHOLDERS (OUT OF APPROX. 94,000) ACCEPTED THE OFFER (71.9% OF THE TOTAL) WITH A PERCENTAGE OF SHARES EQUAL TO 68.7% OF THOSE INCLUDED WITHIN THE OFFER PERIMETER.
    NET OF UNTRACEABLE POSITIONS AND THOSE ALREADY SUBJECT TO SPECIFIC ANALYSIS, THE PERCENTAGE OF SHAREHOLDERS WHO ACCEPTED THE OFFER IS EQUAL TO APPROX. 72.9%, CORRISPONDING TO 70.3% OF BPVI SHARES FALLING WITHIN THE PERIMETER OF THE SETTLEMENT OFFER
  - **THE 30-MILLION-EURO FUND FOR BPVI SHAREHOLDERS IN DISTRESS HAS BEEN ESTABLISHED,** SUBJCET TO THE POSITIVE OUTCOME OF THE SETTLEMENT OFFER TO BPVI SHAREHOLDERS
  - **LIABILITY ACTION SUMMONS RELATED TO THE LIABILITY ACTION** AGAINST FORMER MEMBERS OF TOP MANAGEMENT, BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS **WAS DEFINED – THE WRIT OF SUMMONS WILL BE LODGED IN THE NEXT FEW DAYS**
  - **STATE GUARANTEE OBTAINED** FOR AN AMOUNT OF 3 BILLION EURO ON A NEW BOND ISSUE OF THE BANK CARRIED OUT IN FEBRUARY 2017. FURTHER STATE GUARANTEE REQUESTED ON NEW BOND ISSUES FOR AN AMOUNT OF 2.2 BILLION EURO

- **NET LOSS IN FY 2016 OF 1.9 BILLION EURO, IMPACTED BY:**

  - **1,078 MLN EURO ALLOWANCE TO LOAN LOSS PROVISIONS,** WHICH FURTHER SHORE UP COVERAGE LEVELS. THE REGULATOR HAS REQUIRED A NEW AND MORE STRINGENT LOAN LOSS PROVISIONING POLICY ALREADY INCLUDED IN THE BUSINESS PLAN, WITH POTENTIALLY LIKELY AND HIGH IMPACTS IN 2017
  - **367 MLN EURO WRITE-DOWNS ON SECURITIES AND EQUITY INVESTMENTS**, MAINLY DRIVEN BY THE EFFECT ASSOCIATED WITH THE WITHDRAWAL EXERCISED BY CATTOLICA ASSICURAZIONI AND WITH THE ADDITIONAL IMPAIRMENT OF LUXEMBOURG FUNDS
  - **291 MLN EURO PROVISIONS FOR RISKS AND CHARGES,** ASSOCIATED WITH LITIGATION RISK FOR BPVI SHARES AND WITH THE OUTCOME OF THE SETTLEMENT OFFER TO SHAREHOLDERS
  - **155 MILLION EURO** OF NEGATIVE NET CHANGE IN **DEFERRED TAX ASSETS** EXPENSED IN THE INCOME STATEMENT FOR THE YEAR. THE NON-REGISTERED DTA AMOUNTS TO A TOTAL OF 552 MILLION EURO, OF WHICH 531 MILLION EURO IN RESPECT OF IRRECOVERABLE TAX LOSSES WITHOUT TEMPORAL RESTRICTIONS

- **NPL COVERAGE[1] RISES TO 48.5% (+6.1 P.P. VS. 31/12/2015). NOTABLY, BAD LOAN COVERAGE CAME TO 62.2% (+2.8 P.P. VS. 31/12/2015)**

- **PRO-FORMA CAPITAL RATIOS[2]** (CET1 RATIO 8.21% AND TOTAL CAPITAL RATIO 9.61%**) ABOVE MINIMUM REGULATORY THRESHOLDS, YET BELOW THE 2016 SREP TARGET** (CET1 10.25%). AS OF 31 MARCH 2017, SREP TARGETS WILL BE : CET1 10.25% AND TCR 12.25%

[1] Including Write-offs
[2] Including second tranche of advance payment for the future capital increase (€146.3m) carried out by the Atlante Fund and finalized on 5 January 2017.

Vicenza, 28 March 2017 – The Board of Directors of Banca Popolare di Vicenza has approved the draft parent company and consolidated financial statements as at 31 December 2016.

In 2016 actions aimed at the **reorganization process** of BPVi Group has progressed, including (i) **the Bank's conversion into a joint-stock company and new articles of association;** (ii) **a 1.5-billion-euro capital increase** fully subscribed by the Atlante Fund, (which replaced Unicredit as underwriter for the subscription of shares that failed to sell under the Global Offering), and now the Bank's controlling shareholder with a shareholding of **99.33%.** (iii) **the renewal of the Governance** with the establishment of a new Board of Directors and a new Board of Statutory Auditors appointed by the shareholders on July 7, 2016. In addition, December 6, 2016, Fabrizio Viola was appointed new Managing Director of BPVi Group and Chairman of the Strategy Committee of the Veneto Banca Group; (iv) **the liability action**, against former members of the top management of the Board, the Board of Auditors and the former independent auditors, approved by shareholders on December 13 last**;** (v) An additional capital strengthening action by Altante Fund, **through the irreversible advance payment of 310 million euro or the future capital increase** (in two tranches: the first on 30 December 2016 amounting to 163.7 million euro, and the second on 5 January 2017 amounting to 146.3 million euro), aimed at strengthening capital ratios in light of the impact from the complex year-end assessment processes and the launch of the Settlement Offer to BPVi shareholders;

With regard to the initiatives aimed, worth mentioning **is the rollout during the year of the new Commercial Network Model**. More specifically, under this new Model two distinct business development arms have been set up on 1 January 2016 to serve the Group's core customers: households and small businesses (***Community Banking***) and corporate customers, SMEs and high-net-worth individuals (***Corporate & Private Banking***). Furthermore, the rationalization of BPVi Group's footprint has progressed, with the **closure in 2016 of 80 more branches** (following the 75 branches closed in 2015) and **of 5 out of the 6 Representative Offices** abroad.

In light of the evolution of the Bank's specific situation, characterized by a progressive weakening of its financial situation directly connected, in particular, with the reputational crisis and the consequent hefty decline in intermediated assets, the new Board of Directors, right from its installation, has laid the groundwork for the definition of a **new Business Plan** that among the various options, considered even evaluating mergers with other banks. In February 2017, the Board of Directors approved the new 2017-2021 Business Plan, hinging on the **merger with Gruppo Veneto Banca (controlled by Fondo Atlante with a share of 97.6%) together with an additional capital bolstering action** for the turnaround of the Group. To this respect, in **the absence at present of a clear expression by the controlling shareholders to carry out further capital support interventions**, on 17 March 2017, the Bank informed **the competent Authorities of its intention to apply to the Italian State for the "precautionary recapitalization"** (pursuant to L.D. 237/2016, as amended and transposed into Law no. 15 on 17 February 2017), and is taking action for the intervention to be carried out as soon as possible.
The new business plan, which has already been submitted to the Supervisory Authorities, is built around three main pillars: (i) risk profile reduction, above all credit risk and legal risk (primarily connected with litigations with shareholders), (ii) operating efficiency recovery, and (iii) commercial relaunch also by rebuilding our trust relationship with customers/shareholders and promoting a better customer access to the bank through a strengthening of multi-channel services.

<u>Settlement offer to BPVi shareholders</u>

The Settlement Offer addressed to a large part of the social base of the Bank (about 94,000 shareholders) and launched last January 10, 2017 ended at 1.30pm on 28 March 2017, following the extension of the deadline to join initially set for March 22 2017.

Banca Popolare di Vicenza

Based on the preliminary data reviewed by the Board of Directors, **66,712 shareholders accepted the Settlement Offer (equal to 71.9% out of the total) bearers of the 68.7 % of the in-scope shares.**
Net of the untraceable positions and those already subject to specific analysis**, the percentage of shareholders accepting the Offer is equal to 72.9%, corresponding to 70.3% of the in-scope shares.**
The Board of Directors has expressed its satisfaction with the results of the offer, whose results - although the minimum acceptance threshold of 80% has not been reached - proved the desire of the territory and the communities in which the Bank operates to stand by the bank during the process of restructuring in progress.

The Board of Directors has therefore requested the Bank structures to complete as quickly as possible the necessary controls to have a certain and definitive data of the Offer results , so as to allow to the extent possible, during the Board meeting of April 13 next, to decide regarding the waiver of the condition represented by reaching the 80% threshold of acceptances and consequently to make the payment of the financial reward of EUR 9 per share payable to shareholders who have accepted the offer.
This date is however within the terms indicated in the Offer Regulation.

In parallel with the above-mentioned Settlement Offer, the Bank started **an initiative in favor of shareholders who became involved in the lack of adherence to the correct BPVI shares sales chronological order** – identified based on the inspections carried out by both Consob and the Bank's competent structure – and to whom a fixed and predetermined compensation is offered for each BPVi share included in the unexecuted sales orders, which theoretically could have been executed had the Bank followed the correct chronological order when processing the sales orders. The compensation will be paid irrespective of the number of in-scope shareholders who are going to accept this specific proposal; unlike the widest Settlement Offer, this initiative envisages no minimum acceptance threshold, and thus no condition precedent.

Finally, on 7 March 2017 the Bank decided to set up a **30-million-euro fund to support shareholders in distress**. This initiative, conditional on the effectiveness of the Settlement Offer, stems from the awareness that certain BPVi shareholders and savers are experiencing situations of destitution and severe social distress, as well as from the strong desire to rebuild a trusting relationship between the Bank and its savers/shareholders.

Costs related to the outcome of the above-mentioned conciliation initiatives with BPVi shareholders, are covered by specific provisions for risks and charges and entailed an integration of what has already been allocated for claims and disputes on BPVi shares of 180 million euro.

Liability action

The internal investigation process on liability action against the former directors, statutory auditors and members of the directorate general ended. Today the Board of Directors shared the lay out of the summons which will be filed for notification in the coming days.

Key 2016 consolidated operating results

The financial year closed with a net loss of **1.9 billion** euro as a result (i) of the further hefty reduction in assets intermediated by the Group, mainly driven by the extraordinary events involving BPVi Group as of the second half of 2015 and by the reputation effect these events had, (ii) but primarily of the dynamics of non-performing loans and of the further rise in coverage levels, also following the incorporation of the assessment differences that emerged from the ECB inspections on credit risk in 2016 and the beginning of 2017, (iii) the economic and financial impacts associated with the decision taken by Cattolica Assicurazione on 4 August 2016 to withdraw from the partnership agreement, (iv) as well as of the additional allowances to provisions for risks and charges mainly driven by BPVi shares-related complaints and litigations and by the cost of the Settlement Offer made to shareholders.

Illustrated below are the dynamics of key P&L items as at 31 December 2016:

Net interest income stood at 380.1 million euro, down by 24.6% compared to 31 December 2015, mainly driven by the higher cost of funding in connection with the different funding mix used to sustain the Group's liquidity profile that went through a progressive deterioration and that had to be supported also through deleveraging by reducing customer loans.

Dividends and profit/loss from equity investments came in at 14.0 million euro, down by 70.7% compared to 31 December 2015. The decline was driven by dipping dividends, which in 2015 had benefitted from significant contributions (21.8 million euro) from investments in private equity funds, and by the lower net profit generated by insurance companies carried at equity.

Net fees and commissions added up to 230.3 million euro, down by -28.6% compared to 31 December 2015. The drop was mainly driven by the decline in net fees and commissions from management and brokerage services (-44.6%) which suffer from the lower indirect funding amounts, in the more general context of reduction in assets under intermediation. The overall reduction in intermediated assets had a negative effect also on the development of fees and commissions from traditional services, such as the management and administration of checking accounts, foreign operations, collection and payment services, and the reception and transmission of orders to trade financial instruments.

Net income for the proprietary portfolio came in at 46.2 million euro, down by -71.7% compared to 31 December 2015, due to lower revenues from trading activities and lower gains from the disposal of Government bonds, which instead in the prior year had benefitted from favorable windows of opportunity in the market leading to the generation of significant capital gains.

Other net revenues totaled 49.5 million euro, compared to 15.3 million euro at 31 December 2015. It should be noted however that the data are not readily comparable, since at the end of 2016 the aggregate included 4.2 million euro of revenues from HDS companies that were not present at 31 December 2015. Please note, that other expenses at 31 December 2015 included one-off charges related to refunds to customers on commissions and expense recoveries that had been charged in prior years.

Total income came in at 720.1 million euro, down by 31.6% y/y, reflecting the significant reduction in customer assets under intermediation (approx. -8.8 billion euro, equal to -14.2%), the increase in the cost of funding and the decrease of contribution from the sale of government bonds.

Operating costs totaled 687.5 million euro, down by 1.2% compared to year-end 2015. However, the data are not readily comparable, since at the end of 2016 the aggregate included 5.8 million euro of costs from HDS SpA companies results that were not present at 31 December 2015, as well as non-recurring items such as the AGCOM fine of 4.5 million and costs set aside for the solidarity fund of 20.4 million. Net of these components, operating costs reported a decline of 5.6%.

Personnel expenses rose by 0.6%, and include the cost (20.4 million euro) for the activation of the solidarity fund for employees, net of which this line-item declined by 4.3% mainly due to the lower headcount and the reduction in TFR (termination benefits) and FAP (pension adjustment fund) costs associated with CCNL contract renewal. **Other administrative expenses** decreased by 8.9 million euro (-3.6%). Net of the AGCOM fine and of entries from HDS companies, this line-item declined by 7.7%. Finally, amortization fell by 2 million euro (-5.7%).

As a result of the above dynamics, the Group's **net operating income, while reporting a steep reduction compared to 2015** (-324.3 million euro), **yet is in positive territory and amounts to 32.6 million euro.**

Write-downs and **provisions** totaled 1.719 million euro, and are still quite elevated, albeit down altogether by 26.6% compared to 31 December 2015. Notably:

- **Loan loss provisions** 1,077.5 million euro (-19.2% y/y) reflect the evolution of non-performing loans, the additional write-downs on financed capital-related customers, as well as the mentioned effects of ECB inspections in 2016 and beginning of 2017.

- **write-downs on AFS securities and equity investments,** running at 367 million euro (+114.3%), were mainly attributable to the withdrawal from the partnership exercised by Cattolica Assicurazioni and the resulting shareholding impairment (221.8 million euro including the effect from reclassifying the shareholding among "financial assets available for sale"), to the underpricing (80.9 million euro) of the put options held by Cattolica on 60% of the insurance companies, as well as to the additional impairment of the Luxemburg Optimum MSI and MSII Funds (50.5 million euro).
- **net provisions for risks and charges**, totaling 265.4 million euro (-48.3%), mostly attributable to risks of BPVi shares-related litigations (290.6 million euro, including the preliminary estimated of costs for the settlement offer proposed by the Parent company to its Shareholders/Members, partially offset by approximately 83 million euro through the recovery of provisions earmarked the prior year on credit facility-related legal actions to provide for write-offs for settlement agreements and/or loan write-downs) and, to a lesser extent, to other risks for legal disputes (24.5 million euro), for fines linked to the dissolution of the joint-venture with Cattolica Assicurazioni (6.2 million euro) and to other costs (27.1 million euro) mostly connected with fines the Parent company has been forewarned about by the various supervisory authorities.

Net gain/loss on disposal/valuation of investments came in at 7.4 million euro, 18.4 million euro of which are attributable to the earn-out associated with the sale of the shareholding in ICBPI last year, while it has had a negative impact of 9.2 million euro write-down of real estate assets as a result of new appraisals performed. To this regard, the 2015 figure included the capital gain of 166.7 million euro generated by the sale of the shareholding in Istituto Centrale delle Banche Popolari.

BRRD, FITD and voluntary scheme contributions reported over the year added up to 57.7 million euro, as compared to 58.1 million euro at the end of 2015.

Tax on income made a negative contribution of 164.5 million euro (+486.3 million euro at 31 December 2015), mainly as a result of previously recognized DTAs being written off following the outcome of the new "*probability test*" conducted at the end of the year. The item also includes the DTA fee under L.D. 59/2016 (7.1 million euro, not applicable in 2015).

Key 2016 balance-sheet items

At 31 December 2016, the Group's **intermediation volume**, comprised of **total funds** and **cash loans to customers**, came in at 52,886 million euro, down by 14.2% compared to 61,671 million euro at 31 December 2015.

The aggregate under examination was affected by the reputational effects linked to the Group's specific situation, which caused a decline in intermediation volumes.

Direct funds, amounting to 18,794 million euro, fell by 14.4% compared to 31 December 2015. The drop converged on the commercial component (retail and companies) which was mostly affected by the above-mentioned reputational effects.

As to the **liquidity situation**, since due to the bank's specific difficult situation was not possible to access to senior unsecured medium/long term funding sources, the fund outflow was stemmed through ECB refinancing operations and collateralized funding transactions with institutional counterparties. At 31 December 2016, the exposure with the ECB came in at 6.4 billion euro, of which 4.7 billion euro represented by TLTRO 2 funds.
Further to the approval of L.D. no. 237/2016 (on 23 December 2016) containing urgent provisions to safeguard savings in the credit sector, which gave Banks the possibility (under certain conditions) to apply for a state guarantee on newly issued debt, **the liquidity profile could benefit from the issue** (on 3 February 2017) **of a 3-billion-euro State-guaranteed bond**, with maturity date on 03/02/2020, which was partly sold on the market (1.25 billion) and partly used as collateral to back financing operations (1.75 billion). The funds raised through these operations helped **diversify the Group's funding sources.**

The above-mentioned State-guaranteed bond issuance allowed to improve the main liquidity ratios, including LCR (Liquidity Coverage Ratio), which at 31 December 2016 stood at 37.9%, down from 113.3% at 30 June 2016. Due to the above-mentioned State-guaranteed bond issue, the **LCR indicator took place** above the minimum regulatory threshold set for 2017 (90% based on the 2016 SREP decision). Note, however, that **in March 2017 the ratio was negatively affected by the significant outflow** of commercial funds driven by the bail-in concerns connected with the uncertainty hovering over the recapitalization process. In this context, on 23 March 2017, the Board of Directors decided to proceed with a request to Banca d'Italia and the M.E.F. of a further issuance of securities with State Guarantee ex DL. 237/2016 up to a maximum of 2.2 billion euro for a period of 3 years.

Indirect funds (excluding BPVi shares) were running at 11,533 million euro, down by 20.7% compared to year-end 2015 due to the decline in both assets under custody (22.4%) and the **assets under management and pension funds** components (-18.9%).

Net customer loans stood at 22,559 million euro, down by 10.4% from 25,178 million euro at the end of 2015. The performance of this aggregate mainly reflects the deleveraging carried out to sustain the Group's liquidity profile and the higher average coverage of the NPL portfolio.

Gross non-performing loans stood at 9,799.6 million euro, up by 837.0 million euro (+9.3%) compared to 31 December 2015. Notably, **bad loans** totaled 5,116.2 million euro (+17.1% y/y), **unlikely-to-pay loans** came in at 4,603.2 million euro (+3.7% y/y), while **past-due loans** added up to 80.2 million euro (-48.0%).
50.5% of the increase in gross NPLs reported in 2016 is attributable to exposures towards financed-capital related customers, who, based on internal analyses, no longer had sufficient cashflows to pay off the exposure. The NPEs belonging to this category at 31 December came to 1,305.1 million euro, as compared to 882.4 million euro at 31 December 2015.

It should be pointed out that the dynamics developed in 2016 reflect also the reclassifications and write-downs communicated by the ECB team as a result of the on-site inspection on "*Credit and counterparty risk management and risk control system*", which started in June and was completed at the beginning of September. In March, the Regulator has sent a draft communication where it lists in detail the inspection findings and requires the Bank to implement all the necessary actions to remove the identified shortcomings, within a specific timeframe (between June and September 2017). **In light of ECB's draft recommendations communicated on 13 March 2017**, the Bank will have to revise and tighten its credit and counterparty risk policies, processes and procedures, and their adoption across the entire loan portfolio is likely to bring about a significant negative impact, to date not quantifiable, on BPVi Group's financial and operating situation, already in 2017.

Moreover, **BPVi has undergone another on-site inspection** regarding exclusively the scope of loans "related" to the purchase/subscription of BPVi shares. The inspection started at the beginning of February 2017 and was completed on 10 March last. At the date of this Report, the pre-closing meeting during which the findings of the inspection are formally communicated to the management has not taken place yet. With respect to the preliminary findings, the Group made already possible to include provisions in the 2016 Financial Statements and reclassified certain loans classified as performing as unlikely-to-pay, proposed by the audit team and agreed upon by the Bank. Furthermore, analyzes were initiated on major reclassifications of non-performing proposed by the audit team and whose major provisions have already been included. These reclassifications will eventually be carried out, once the analysis are concluded, in the first half 2017.

Net non-performing loans to customers stood at 5,160.3 million euro, down by 159.9 million euro (-3.0%) compared to 31 December 2015. More specifically, **bad loans** amounted to 2,022.6 million euro (+7.1% y/y), **unlikely-to-pay loans** added up to 3,070.5 million euro (-6.8% y/y), and **past-due loans** came to 67.2 million euro (-50-4%).

The **NPL coverage ratio**, including partial write-offs of loans under insolvency procedures (write-downs), was running at 48.54% (+6.13 p.p. compared to 42.41% at year-end 2015), in particular the bad loan coverage ratio rose to 62.16% (+2.84 p.p. compared to 59,32% at year-end 2015).

The Group's **shareholders' equity** stood at 2,148.7 million euro, down by 385.4 million euro compared to year-end 2015 (-15.2%).

Regulatory capital ratios

Own funds at 31 December 2016 totaled 1,906.5 million euro, compared to 2,022.5 million euro at 31 December 2015. The drop, was mainly due to the loss for the year, only partly attributable to elements deductible from Own Funds, as well as the calculation of negative valuation reserves associated with exposures to Central Administrations of EU member countries and with refunds and the amortization of subordinated bonds required by prudential regulations. It should also be noted that, in spite of the uncertainty regarding the legitimacy of the decision by Cattolica Assicurazioni to exercise the right of unilateral withdrawal from the partnership with the Bank and, hence, of the validity of Cattolica's right to sell the 60% stakes held in Berica Vita, Cattolica Life and ABC Assicura, the entire exercise price (178.5 million euro) of Cattolica's potential right to sell the stakes in the above mentioned insurance companies was deducted from Own Funds at 31 December 2016, in keeping with the provisions, including transitional ones, contained in Regulation (EU) no. 575/2013.

Finally, it should be recalled that a "**prudential filter**" (255.3 million euro at 31 December 2016, 320.8 million euro at the end of 2015) is applied to the Own Funds of Gruppo BPVi, to neutralize the capital identified as being "related" to purchases/subscriptions of BPVi shares and loans granted to certain Members/Shareholders, or where other elements were identified calling for their deduction from Common Equity Tier 1 items under art. 36 of Regulation (EU) no. 575/2013, against which the capital had not already been "neutralized" by way of provisions or write-downs charged to income.

Both the **Common Equity Tier 1 Ratio** and the **Tier 1 Ratio** stand at 7.47% (6.65% at 31 December 2015), while the **Total Capital Ratio** comes to 8.88% (8.13% at 31 December 2015).
The pro-forma consolidated ratios at 31 December 2016, including the second tranche of the advance payment on the future capital increase carried out on 5 January 2017 by Fondo Atlante, amounting to euro 146.3 million, **stand at 8.21% with respect to the CET1 ratio and the Tier 1 ratio and at 9.61% for the Total capital ratio.**

While complying with the minimum capital requirements under art. 92 of Regulation EU no. 575/2013, BPVI Group's CET 1 ratio falls below the SREP target set at 10.25% for 31 December 2016.
Finally, please note that, following the new SREP decision notified on 16 December 2016, the consolidated capital requirements to be met as of 31 March 2017 are:

- 8.75% CET1 ratio transitional
- 10.25% Tier 1 ratio transitional
- 12.25% Total Capital ratio transitional

Since for the time being the Bank has no Additional Tier 1 instruments, **the minimum CET1 ratio requirement to be satisfied is in practice 10.25%.**

The above capital requirements include an additional Pillar 2 requirement of 3.00% and a Capital Conservation Buffer of 1.25%, which are both entirely comprised in the CET1 ratio.

Operational outlook

Notwithstanding exogenous factors and uncertainties related to macroeconomic and financial scenario of 2017, **the outlook of BPVi Group** will be affected by the specific difficult situation both in terms of balance sheet and the profit and loss account and of the actions that will be taken as part of the restructuring process initiated. The latter involves the **merger with Veneto Banca together with a capital strengthening, as in accordance with the 2017-2021 Business Plan**, submitted to the respective boards of directors in the month of February 2017. The **merger operation is subject to authorization of the Regulatory Authorities** as well as the application of current legislation: the **authorization process initiated is marked by no minor elements of uncertainty.**

The performance of operations in the months preceding the completion of the merger **will be affected by the constraints deriving from the sharp reduction in capital ratios** arose following the loss of the year 2016. The liquidity position, although strengthened by the issue of bonds guaranteed by the State, remains influenced by the period of uncertainty and may show a high volatility of the masses with particular reference to those relating to high unitary amount corporate customers. Please note that during the month of March 2017 there has been a significant deterioration in the liquidity situation. In this context, on 23 March 2017, the Board of Directors decided to proceed with a request to Banca d'Italia and the M.E.F. of a further issuance of securities with State Guarantee ex DL. 237/2016 up to a maximum of 2.2 billion euro for a period of 3 years.

The cost of credit is expected to remain quite high, both because of the planned revision aimed at further tightening the provisioning policies adopted by the Bank also further to the inclusion of the indications on credit and counterparty risks presented after the ECB's inspection, and because of the effects from the planned disposal of the bad loan portfolio, resulting from the merger operation, to be carried out through a public securitization process, that is already underway.

The **implementation** during the year of the necessary **capital bolstering** actions represents a **pre-requirement to operate as a going concern** and to successfully complete the **merger**, which should accelerate the business recovery process and lay the foundations for significant cost synergies.

With specific regard to capital strengthening actions - as part of the methods to raise the necessary capital to implement the afore-mentioned recapitalization - and in the **absence, at present, of a clear expression of intention by the controlling shareholder to implement further actions to support the capital,** the Bank informed MEF, the Bank of Italy and the ECB **of its intention to apply to the Italian State for a temporary and extraordinary public financial support measure ("precautionary recapitalization")**, pursuant to L.D. 237/2016, as amended and transposed into Law no. 15 on 17 February 2017. This measure is considered the most realistic recapitalization option, since market operations appear largely unfeasible; at the same time the implementation of a Liability Management exercise (e.g. voluntary conversion of subordinated debt into equity) appears quite complicated and the execution unpredictable. However, it should be pointed out that also **the precautionary recapitalization by the State is a complex and elaborate process**, which requires the prior decision by the Directorate-General of the Competition (**DG Comp**) of the European Commission on the compatibility intervention through the state aid regulation, whose outcome is to date uncertain.

The manager in charge of preparing the corporate financial reports, Mr. Massimiliano Pellegrini, in compliance with paragraph 2 of art. 154 bis of the Consolidated Finance Act, hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

The Manager in charge of preparing
corporate financial reports
Massimiliano Pellegrini

This press release, prepared pursuant to art. 17 of Regulation (EU) no. 596/2014 of 16 April 2014, is available on the website www.popolarevicenza.it, and has also been published on the website of the authorized central storage mechanism "1Info" at www.1Info.it.

Banca Popolare di Vicenza

Gruppo Banca Popolare di Vicenza, founded in Vicenza in 1866 – the first Popolare Bank in Veneto – today ranks eleventh among Italian banks based on total asset, with a market share of 1.7% by number of branches. The Group's distribution network relies on roughly 541 points of sale (including branches, financial shops and private banking centers) strewn throughout 16 Italian regions, with a strong franchise in Veneto and in the entire North-East area and a customer base primarily represented by retail customers, self-employed professionals and small and medium-sized enterprises.

*Banca Popolare di Vicenza (*www.popolarevicenza.it*) is also on Twitter: sign in at* http://twitter.com/popolarevicenza *to be informed of all group initiatives, news and events.*

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RECLASSIFIED CONSOLIDATED BALANCE SHEET (in million of euro)

ASSETS	31/12/2016	31/12/2015	Change absolute	Change %
Loans and advances to customers	22,558.8	25,178.1	-2,619.3	-10.4%
Loans and advances to banks	2,120.5	2,150.2	-29.7	-1.4%
Financial assets held for trading	2,065.8	3,408.6	-1,342.8	-39.4%
Other cash financial assets and hedging derivatives [1]	5,394.8	5,766.7	-371.9	-6.4%
Equity investments	65.9	492.7	-426.8	-86.6%
Tangible and intangible assets [2]	592.4	609.2	-16.8	-2.8%
Other assets [3]	1,626.0	2,177.9	-551.9	-25.3%
Total assets	**34,424.2**	**39,783.4**	**-5,359.2**	**-13.5%**

Unless otherwise specified, the above items refer to the corresponding balance sheet layout prescribed by the Bank of Italy Circular no. 262.

[1] Inclusive of items "30. Financial assets at fair value", "40. Financial assets available for sale" and "80. Hedging derivatives".

[2] Inclusive of items "120. Tangible assets" and "130. Intangible assets".

[3] Inclusive of items "10. Cash and cash equivalents", "90. Remeasurement of financial assets under macro hedging", "140. Tax assets" and "160. Other assets".

LIABILITIES	31/12/2016	31/12/2015	Change absolute	Change %
Direct deposits [1]	18,794.3	21,942.7	-3,148.4	-14.3%
Deposits from banks	9,173.9	9,973.5	-799.6	-8.0%
Financial liabilities held for trading	1,455.3	2,772.0	-1,316.7	-47.5%
Hedging derivatives	875.4	887.6	-12.2	-1.4%
Other liabilities [2]	1,976.6	1,673.5	303.1	18.1%
Group equity [3] [4]	2,148.7	2,534.1	-385.4	-15.2%
- *of which Parent Bank's profit (loss)*	*-1,902.4*	*-1,407.0*	-495.4	*35.2%*
Total liabilities	**34,424.2**	**39,783.4**	**-5,359.2**	**-13.5%**

Unless otherwise specified, the above items refer to the corresponding balance sheet layout prescribed by the bank of Italy Circular no. 262.

[1] Inclusive of balance sheet items "20. Due to customers", "30. Securities in issue" and "50. Financial liabilities at fair value".

[2] Inclusive of balance sheet items "70. Remeasurement of financial liabilities under macro-hedging", "80. Tax liabilities", "100. Other liabilities", "110. Termination benefits", "120. Provisions for risks and charges" and "210. Minority interest".

[3] Inclusive of balance sheet items "140. Valuation reserves", "160. Equity instruments", "170. Reserves", "180. Share premium", "190. Share capital", "200. Treasury shares" and "220. Net profit (loss) for the year".

[4] Inclusive of restricted reserves of Euro 236.3m (Euro 304.4m at 31 December 2015) realated to financed capital and Euro 40.3m (Euro 57m at 31 December 2015) arelated to the two capital increases (duly communicated to the Regulator) aimed at broadening our shareholding base.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT (in million of euros)

	31/12/2016	31/12/2015	Change	
			absolute	%
Net interest income	380.1	503.9	-123.8	-24.6%
Dividends and profit (loss) from equity investments	14.0	47.9	-33.9	-70.7%
Net financial income	**394.1**	**551.8**	**-157.7**	**-28.6%**
Net fees and commissions	230.3	322.4	-92.1	-28.6%
Net profit for the proprietary portfolio	46.2	163.4	-117.2	-71.7%
Other net income	49.5	15.3	34.2	222.8%
Operating income	**720.1**	**1,053.0**	**-332.9**	**-31.6%**
Administrative costs:	-653.8	-660.3	6.6	-1.0%
- personnel expenses	-412.8	-410.4	-2.4	0.6%
- other administrative expenses	-241.0	-249.9	8.9	-3.6%
Depreciation and Amortization	-33.7	-35.7	2.0	-5.7%
Operating costs	**-687.5**	**-696.0**	**8.6**	**-1.2%**
Profit (loss) from operations	**32.6**	**356.9**	**-324.3**	**-90.9%**
BRRD, FITD and voluntary plan charges	-57.7	-58.1	0.4	-0.6%
Net impairment and adjustment	-1,453.4	-1,827.3	373.9	-20.5%
- *of which on loans and advances*	*-1,077.5*	*-1,333.7*	*256.2*	*-19.2%*
- *of which on financial assets available for sale and equity investments*	*-367.0*	*-171.2*	*-195.8*	*114.3%*
- *of which goodwill impairment*	*-8.3*	*-334.6*	*326.2*	-97.5%
- *of which on other financial transactions*	*-0.6*	*12.2*	*-12.8*	n.s.
Net provisions for risks and charges	-265.4	-513.1	247.6	-48.3%
Gain (loss) on disposal/valuation of investments	7.4	149.0	-141.6	-95.0%
Net income (loss)	**-1,736.5**	**-1,892.5**	**156.0**	**-8.2%**
Income tax	-164.5	486.3	-650.8	n.s.
Minority interest	-1.4	-0.8	-0.6	71.2%
Net income (loss) for the period	**-1,902.4**	**-1,407.0**	**-495.4**	**35.2%**

Below is the reconciliation between the items of the reclassified income statement and those prescribed by the Bank of Italy with Circular no, 262,

Legend:

Net interst income: item 30 of the income statement

Dividends and profit (loss) from equity investments: items 70 and 240 of the income statement net of write-downs on impairment of investments and other economic effects not related to the net income of associated (-221,875 thousand euro at 31 December 2016, -10,982 thousand euro at 31 December 2015)

Net fees and commissions: item 60 of the income statement.

Net profit from banking books: items 80, 90, 100 and 110 of the income statement, excluding the earn-out associated with the disposal of the stake held in ICBPI (+18,421 thousand euro at 30 December 2016, , +166,661 thousand euro at 31 December 2015) and the difference recognized under line-item 80 (-80,858 thousand euro at 30 december 2016, absent at 30 december 2015, between the pre-fixed price of Cattolica Assicurazioni's put option on the 60% stakes in Berica Vita SpA, Cattolica Life DAC and ABC Assicura SpA and the corresponding pro-rated embedded value of Cattolica in Berica Vita SpA, Cattolica Life DAC and in the net equity of ABC Assicura Spa) and losses generated by the sale of loans (-8,223 thousand euro at December 31, 2016, -357 to 31 December 2015).

Other net income: item 220 of the income statement, excluding "recovery of stamp duties and other indirect taxes" (+39,642 thousand euro at 31 december 2016, +56,146 thousand euro at 31 december 2015) and "amortization of leashold improvements" (-4,917 thousand euro at 31 december 2016, -5,320 thousand euro at 31 december2015),

Personnel expenses: item 180 a) of the income statement.

Other administrative expenses: item 180 b) of the income statement, net of revenues from "recovery of stamp duties and other indirect taxes" (+39,642 thousand euro at 31 december 2016, +56,146 thousand euro at 31 december 2015), of the ordinary contribution to the Resolution Fund (-57,748 thousand euro at 31 december 2016, -58,108thousand euro at 31 december 2015) and of the DTA fee under L,D, 59/2016 (-7,519 thousand euro at 31 december 2016, absent at 31 december 2015).

Amortization and Depreciation: items 200 and 210 of the income statement and including "amortization of leashold improvements" 4,917 thousand euro at 31 december 2016, -5,320 thousand euro at at 31 december 2015).

BRRD, FITD e schema volontario: -57,748 thousand euro at 31 December 2016, from -58,108 thousand euro to 31 December 2015 expense recognized in item 180 b of the income statement.

Net write-downs/write-backs on impairment: item 130 and 260 of the income statement, including losses generated by the sale of loans (-8,223 thousand euro at December 31, 2016 -357 to 31 December 2015) entered in Item 100 a) of the income statement, adjustments for impairment of intangible assets entered in Item 210 of the income statement (absent at December 31, 2016, -10,932 thousand euro at 31 December 2015), writedowns for impairment of investments and other economic effects not related to the outcome the income of associated companies (-221,875 thousand euro December 31, 2016, -10,982 thousand euro at 31 December 2015). Adjustments for impairment on equity investments and other economic effects not related to the net income of associated companies (-221,875 thousand euro at 31 December , 2016, -10,982 thousand euro a t31 Decembe, 2015) reported in line item 240 in the income statement and the differential, under item 80 (-80,858 thousand euro at 31 December 2016, absent at 31 December 2015) between the predetermined price of the right to sell by Cattolica Assicurazioni holdings of 60% in Berica Vita SpA, Cattolica Life DAC and ABC Assicura SpA and the corresponding pro-rata share of Cattolica embedded value in Berica Vita SpA, Cattolica Life DAC and net assets of ABC AssicuraSpA.

Net provisions for risks and charges: item 190 of the income statement.

Gain (loss) on disposal/valuation of investments: items 250 and 270 of the income statement, including the earn-out associated with the disposal of the stake in ICBPI (+18,421 thousand euro at 31 december 2016, +166,661 thousand euro at 31 december 2016) recognized under line-item 100 of the income statement and writedowns for impairment of functional tangible assets (-8,414 thousand at December 31, 2016, -12,874 thousand euro at 31 December 2015).

Income tax: item 290 of the income statement, including the DTA fee under L,D, 59/2016 (-7,519 thousand euro at 31 december 2016, absent at 31 december 2015) recognized under line-item 180 b of the income statement.

Minority interest: item 330 of the income statement.

OTHER INFORMATION	31/12/2016	31/12/2015
Personnel	5,365	5,473
Average number of employees i [(1)]	5,147	5,273
Number of points of sale	541	627
Number of bank branches	502	579

CAPITAL ADEQUACY RATIOS	31/12/2016	31/12/2015
RWA (mln€)	21,477	24,884
CET 1 ratio	7.47%	6.65%
Total Capital Ratio	8.88%	8.13%

OPERATING PERFORMANCE RATIOS [(2)]	31/12/2016	31/12/2015
Customer loans / direct deposits	120.0%	114.7%
Total assets / net equity (leverage)	16 x	15.7 x
Direct deposits per employee (in mln euro)	3.7	4.2
Indirect funds per employee (in mln euro) [(3)]	2.2	2.8
Customer loans per employee (in mln euro)	4.4	4.8
Cost / Income [(4)]	95.5%	66.1%

ASSET QUALITY RATIOS	31/12/2016	31/12/2015
Net non-performing loans / net loans	22.87%	21.13%
Net bad loans / net loans	8.97%	7.50%
Net bad loans coverage[(5)]	48.54%	42.41%
Net non-performing loans coverage[(5)]	62.16%	59.32%
Cost of credit [(6)]	4.74%	5.29%

(1) The average headcount is calculated in accordance with the indications set forth in the Bank of Italy Circular no. 262.

(2) Productivity ratios are calculated based on the average headcount.

(3) Excluding BPVi shares.

(4) The ratio is calculated by dividing "operating costs" by "operating income" as entered in the reclassified income statement.

(5) The percentage of coverage is determined by including write-downs for bankruptcy procedure in progress at the reference date

(6) Ratio between " impairment adjustments on loans" and net customer loans.