Interim consolidated financial statements at 30 June 2014

Gruppo Banco Desio

Contents

Directors and officers
(Banco di Desio e della Brianza S.p.A.)

Board of directors

Chairman	Agostino Gavazzi
Deputy Chairman	Stefano Lado*
Chief Executive Officer	Tommaso Cartone*
Directors	Egidio Gavazzi* Paolo Gavazzi Tito Gavazzi* Graziella Bologna* Cristina Finocchi Mahne Gerolamo Pellicanò Sandro Appetiti Gigliola Zecchi Balsamo

* *Members of the Executive Committee*

Board of Statutory Auditors

Chairman	Eugenio Mascheroni
Acting Auditors	Rodolfo Anghileri Giulia Pusterla
Substitute Auditors	Giovanni Cucchiani Paolo Pasqui Elena Negonda

General Management

General Manager	Luciano Colombini
Deputy General Manager "Corporate Affairs"	Ippolito Fabris

Financial Reporting Manager as per art. 154-bis CFA

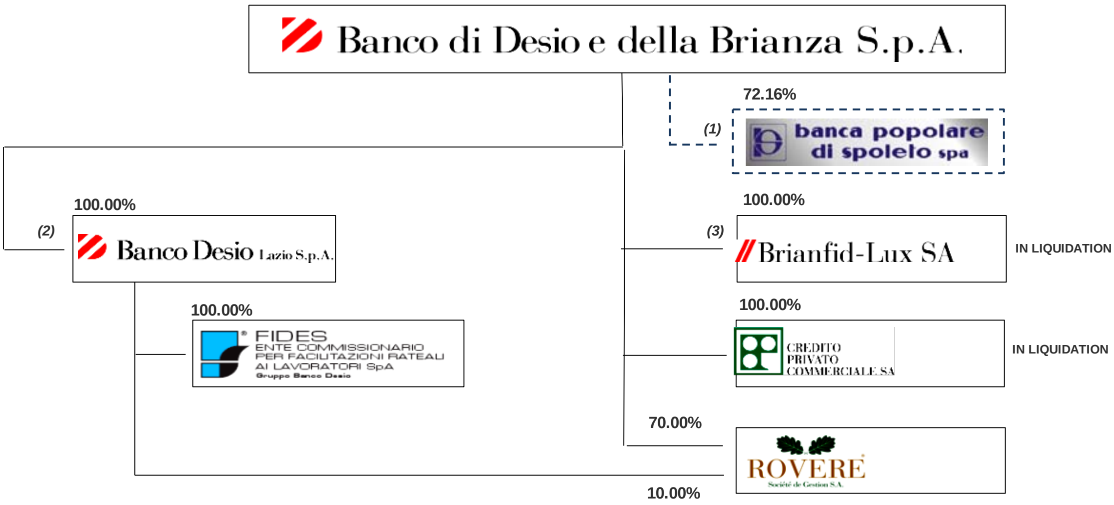
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Deloitte & Touche S.p.A.

The Banco Desio Group

The corporate structure of the Banco Desio Group to which this consolidated interim financial report at 30 June 2014 refers is as follows:



(1) at 30 June 2014 the Parent Company Banco di Desio e della Brianza holds an equity investment of 72.16% (subsequently reduced to 72.13% on 2 July 2014) in Banca Popolare di Spoleto S.p.A. in Extraordinary Administration (BPS); nevertheless, Banca Popolare di Spoleto S.p.A. did not fall within the Group's scope of consolidation as at the reporting date, given that control of the company was assumed subsequent to the appointment of new corporate bodies and the consequent closure of the extraordinary administration proceedings that took place in July 2014.

(2) on 22 July 2014 a merger deed was executed for the merger by absorption into the Parent Company of Banco Desio Lazio S.p.A. and the merger will be legally effective as of 1 October 2014.

(3) on 23 July 2014 a Shareholders' Meeting was held to close the liquidation proceedings for Brianfid-Lux S.A. with the consequent definitive cancellation of the company.

Introduction

This consolidated interim financial report at 30 June 2014 of the Banco Desio Group, made up of the *Interim Report on Operations* and by the *Condensed Interim Financial Statements*, has been prepared pursuant to art. 154-*ter* of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 and in particular IAS 34 - *Interim Financial Statements*, as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

The figures and ratios included in the *interim report on operations*, where due, refer to the balance sheet of the *condensed interim financial statements* and to the reclassified income statement, as disclosed in the appropriate paragraph, in turn prepared starting from the income statement of the *condensed interim financial statements*.

Interim consolidated report on operations at 30 June 2014

1 - KEY FIGURES AND RATIOS

BALANCE SHEET

Amounts in thousands of Euro	30.06.2014	31.12.2013	Change amount	Change %
Total assets	9,867,780	9,270,291	597,489	6.4%
Financial assets	1,270,711	1,607,785	-337,074	-21.0%
Due from banks	513,119	275,848	237,271	86.0%
Loans to customers	7,485,504	6,955,429	530,075	7.6%
of which: Loans to ordinary customers	*6,997,686*	*6,837,487*	*160,199*	*2.3%*
of which: Loans to institutional customers	*487,818*	*117,942*	*369,876*	*313.6%*
Property, plant and equipment	147,855	144,417	3,438	2.4%
Intangible assets	25,740	25,506	234	0.9%
Due to banks	471,229	438,026	33,203	7.6%
Due to customers	5,892,509	5,489,782	402,727	7.3%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	2,114,867	2,277,709	-162,842	-7.1%
Shareholders' equity (including Net profit/loss for the period) [(1)]	852,436	818,716	33,720	4.1%
Own Funds *(formerly Capital for supervisory purposes)* [(2)]	831,264	815,324	15,940	2.0%
Total indirect deposits	11,004,965	10,741,465	263,500	2.5%
of which: Indirect deposits from ordinary customers	*7,621,688*	*7,454,136*	*167,552*	*2.2%*
of which: Indirect deposits from institutional customers	*3,383,277*	*3,287,329*	*95,948*	*2.9%*

INCOME STATEMENT [(3)]

Amounts in thousands of Euro	30.06.2014	30.06.2013	Change amount	Change %
Operating income	198,701	183,984	14,717	8.0%
of which: Net interest income	*102,136*	*92,413*	*9,723*	*10.5%*
Operating costs	105,543	107,238	-1,695	-1.6%
Result of operations	93,158	76,746	16,412	21.4%
Profit (loss) from operations after tax	23,791	-5,572	29,363	n.s.
Non-recurring profit (loss) after tax	7,358	1,191	6,167	517.8%
Net profit (loss) for the period [(1)]	31,103	-4,424	35,527	n.s.

(1) *pertaining to the Parent Company;*

(2) *the figure at 31.12.2013 was recomputed in accordance with the new regulations (Bank of Italy Circular no. 285 and EU Regulation 575/2013), whereas the former Capital for supervisory purposes amounted to Euro 823.3 million;*

(3) *from the Reclassified income statement.*

BALANCE SHEET AND INCOME STATEMENT RATIOS

	30.06.2014	31.12.2013	Change amount
Capital/Total assets	8.6%	8.8%	-0.2%
Capital/Loans to customers	11.4%	11.8%	-0.4%
Capital/Due to customers	14.5%	14.9%	-0.4%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	40.3%	35.9%	4.4%
Common Equity Tier 1 (CET 1) / Risk-weighted assets (Common Equity Tier 1 ratio) (4)	12.8%	n.s.	
Core Tier 1 capital (T1) / Risk-weighted assets (Tier 1 ratio) (4)	12.9%	n.s.	
Total Own Funds / Risk-weighted assets (Total capital ratio) (4)	13.4%	n.s.	
Financial assets/Total assets	12.9%	17.3%	-4.4%
Due from banks/Total assets	5.2%	3.0%	2.2%
Loans to customers/Total assets	75.9%	75.0%	0.9%
Loans to customers/Direct customer deposits	93.5%	89.5%	4.0%
Due to banks/Total assets	4.8%	4.7%	0.1%
Due to customers/Total assets	59.7%	59.2%	0.5%
Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets	21.4%	24.6%	-3.2%
Direct customer deposits/Total assets	81.1%	83.8%	-2.7%

	30.06.2014	30.06.2013	Change amount
Cost/Income ratio	53.1%	58.3%	-5.2%
Net interest income/Operating income	51.4%	50.2%	1.2%
Result of operations/Operating income	46.9%	41.7%	5.2%
Profit (loss) from operations after tax/Capital (5) - *annualised* (6)	5.8%	-0.8%	n.s.
ROE (5) - *annualised* (6)	7.6%	-0.6%	n.s.
Profit (loss) from operations before tax / Total assets (ROA) - *annualised* (6)	0.8%	0.0%	0.8%

STRUCTURE AND PRODUCTIVITY RATIOS

	30.06.2014	31.12.2013	Change amount	%
Number of employees	1,729	1,760	-31	-1.8%
Number of branches	185	185	-	-
Amounts in thousands of Euro				
Loans and advances to customers per employee (7)	4,291	3,866	425	11.0%
Direct deposits from customers per employee (7)	4,590	4,318	272	6.3%

	30.06.2014	30.06.2013	Change amount	
Operating income per employee (7) - *annualised*	228	204	24	11.8%
Result of operations per employee (7) - *annualised* (6)	107	86	21	24.4%

(4) *the capital ratios computed at 31.12.2013 on the basis of previous regulations do not provide meaningful comparatives;*
(5) *excluding net profit (loss) for the period;*
(6) *for the annualised figure at 30.06.2013 we have used the closing balance at 31.12.2013;*
(7) *based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period*

2 - THE MACROECONOMIC SCENARIO

International scenario

In the early months of 2014 the slow upturn in the global economic cycle was restrained by various adverse factors, which led to the rate of growth of global GDP failing to meet what had been forecast at the beginning of the year. Some of these factors are of a temporary nature, such as the winter weather in the United States that was behind a sharp slowdown in U.S. GDP. Other factors could not have been foreseen, such as the escalation of the conflict between Russia and Ukraine that damaged the peripheral countries, which are characterised by weak domestic demand. Moreover, there was a general slowdown in international trade that held back various economies, such as, for example, the German economy (which could well have achieved a higher rate of growth than the already notable 3.3% that was recorded).

Another cause for concern was the minimum level reached by harmonised inflation, which fuels the risk of deflation and, thus, that of a long period of stagnation, similar to that experienced by Japan in the nineties and at the turn of the century.

Furthermore, it cannot be excluded that cases of currency tension could materialise in certain developing nations. This could trigger a general deterioration in the climate of confidence and a consequent slowdown in global recovery.

In June 2014, however, a comforting sign was provided by the PMI (Purchasing Managers Index), which increased from 54.3 in May to 55.4, anticipating a recovery in international economic activity over the forthcoming months.

United States

In the first quarter of 2014, there was a quarterly annualised change in U.S. GDP of 3%, which represented a sharp fall compared with the previous quarter (+2.6%): this was attributable to continued unfavourable weather in major areas of the country. Given the temporary nature of these factors, it is normal to expect growth to rebound over the coming months and this could lead to a rise in the forecast annual rate compared to 2013 of +1.5%, driven particularly by domestic demand. the OECD leading indicator is also higher than the long term trend and points to a probable strengthening of the economy over the forthcoming 6 months.

As a result of less stringent fiscal conditions, domestic demand started growing in the second quarter by around 3%. With continued household deleveraging, the debt to assets ratio has gone back to the levels experienced in the early 2000s. Property prices are rising, contributing to an increase in the value of household net worth and also driving consumer spending. Consumer prices grew by 2.1% in May, up compared to the previous month's rise of +1.9%.

There continues to be a gradual improvement in the labour market, even though this remains the U.S. economy's major weakness: for this reason, the Fed has confirmed that its primary objective is to maximise employment, also in view of the low level of inflation. New jobs have been created, but not enough to restore the pre-crisis conditions and to absorb the potential workforce that had left the job market. The unemployment rate fell again to 6.1% in June 2014, while the employment rate was 59%, which is much lower than the pre-crisis rate of 80% (partially due to demographic factors linked to the retirement of the baby boom generation).

Japan

Thanks to a good performance by the construction industry and to expenditure and consumption having held up, in the early months of 2014 the Japanese economy accelerated down a growth path. In 2014 GDP is forecast to grow by 2% on an annual basis, thanks to total domestic demand (+1%) and net exports (+0.7%), driven by the depreciation of the Yen and by the consequent improvement in terms of trade.

Attempts continue to exit deflation, with the year end inflation rate forecast to be 2.8%. The increase in consumption tax that took effect on 1 April led to a peak in the first quarter, but with the expectation that a sharp backlash will follow.

Emerging countries

In the first quarter of 2014, Russia's GDP grew by 0.9% (against +2% in the previous quarter). Due to the weak economy and the events in Ukraine/Crimea, it is unlikely that the outcome will be a favourable scenario and a strong recovery in the influx of foreign capital and investment. The weak exchange rate will lead to further difficulties in tackling inflation (in June the annual rate of change in prices was +7.8%).

The growth pattern continued in the Middle East: GDP is forecast to grow by 3.5% in 2014. Notwithstanding lower oil revenues due to the trend in prices per barrel, there is still sufficient surplus to sustain the non-oil sector of the economy through public expenditure and wages; the combination of higher spending and a drop in oil revenues is not however sustainable in the medium term, as it subjects public finances to intense pressure.

As regards China, the information available for the early months of the year points to a slowdown in activity, but there has again been substantial growth (+7.4%). GDP is forecast to grow by 7.3% in 2014. Having kept inflation under control (2.3% on an annual basis as of June), there is no need to move to a more restrictive monetary policy and there are new plans for infrastructural investments and tax cuts for small businesses.

In India, GDP is forecast to grow by 4.9% in 2014, but the outlook remains uncertain, based on the weak performance shown by the OECD leading indicator. Both consumption and investment have been weak and growth in GDP is being held back by restrictive monetary policy and by the pursuit of budget goals by the Indian government. The depreciation of the rupee has led to an increase in net exports and to an improvement in terms of trade.

For Latin America, GDP is forecast to grow by 1.9% in 2014, thus confirming the weak growth trend. High inflation remains a critical factor, especially in Brazil (as of June the annual change was +6.1%). The Brazilian central bank is implementing a stringent monetary policy in order to ensure macroeconomic stability, to keep inflation under control and to stop the outflow of capital.

Eurozone

At the beginning of 2014 a number of factors emerged that highlighted the fragility of the Eurozone and which contributed to holding back economic growth: the strong dependence on the international economic cycle, the cyclical and structural heterogeneity between countries (large gap between those with signs of recovery in domestic demand and those almost exclusively dependent on international factors), very low inflation (+0.5%) that is likely to trigger deflation, high unemployment and the continuing fragmentation of the credit market. Notwithstanding the foregoing, for the fourth consecutive quarter, in the first quarter of 2014 the Eurozone's economy grew, although at a considerable lower rate than that expected by analysts: in fact, its GDP increased by 0.8% in annualised quarterly terms. As of May 2014, the OECD leading indicator relating to the Eurozone remained higher than the long term trend, pointing to an outlook for growth. GDP is forecast to grow by 0.9% in 2014.

In April, industrial output across the Eurozone recorded its eighth consecutive increase on a trend basis of 1.2%. The consumer confidence index is also rising; after a long period in which internal expenditure has struggled to take off, it is expected that household consumption will grow in the current year. Retail sales in the Eurozone in May 2014 were up by 0.3% on a trend basis.

It is expected that the public debt to GDP ratio will peak in 2014 and will then start to fall in 2015 thanks to the creation of primary surpluses of around 1% of GDP. After having reached a low point at the end of 2013, the labour market has shown signs of an upturn. The peak in unemployment seems to have passed: after two years of continuous growth, at the beginning of 2014 the unemployment rate began to fall, reaching 11.6% in May.

Italy

Italy's GDP started falling again in the first quarter of 2014 (-0.1% compared with the previous quarter). However, the OECD leading indicator continues to show a slight improvement in development prospects, having remained above the long term trend and having increased slightly. In fact, as forecast, the change in GDP for the current year should be 0.3%, becoming positive again after two years of decline. The growth in GDP is expected to be driven by expenditure incurred by resident households (+0.2%) and by investments in machinery and equipment (+0.9%).

In the first quarter of 2014, exports and imports rose by 0.8% and 0.3%, respectively. In May 2014 the seasonally adjusted index of industrial output fell by 1.8% on a trend basis. After the gradual improvements recorded in previous months, the consumer confidence index fell in June from -8.6 to -11.4; business confidence, however, continued to show positive signs. The labour market continues to be influenced by the effects of the crisis: the unemployment rate in May was 12.6% (+0.5% in the year); the trend in youth unemployment (aged between 15 and 24) is a more serious cause for concern, having reached 43.0% (+4.2% compared to last May). The employment rate of 55.5% has fallen by just 0.1 percentage point compared to the prior year figure. The slowdown in growth of annual income has continued. It is expected that expansionary fiscal policy measures will be introduced in 2014, consisting of a reduction of the tax wedge that was announced by the government in March, and by an acceleration of investment expenditure.

Capital markets and the banking system in Italy

The ECB has decided to reduce, with effect from 11 June 2014, its policy rate to 0.15%, an all-time low since the birth of the Euro. Interest rates on marginal lending facilities have also been reduced to 0.4%. Moreover, for the first time, the interest rate on overnight deposits by banks with the ECB has become negative, reaching -0.1%.

In May, Eurozone inflation reached an all-time low of 0.5%, down by 0.7% on the previous month. The President of the ECB, Draghi, recently stated that the ECB intends to introduce a package of new measures to help the real economy, taking inflation to 2%. The ECB is also prepared to resort to unconventional measures to counter the risk of the rate of inflation being too low over a long period. For this reason, it is reasonable to expect the policy rate to remain low for a while.

The Federal Reserve's policy rate has remained unchanged within a range of between 0 and 0.25%, as has been the case for its discount rate, which has remained unchanged at 0.75%.

The average three-month Euribor interest rate for June came to 0.24%, which was down on the previous month (0.33%) and close to its all-time low.

With regard to bond markets, yields on Eurozone financial bonds fell slightly in June; those on U.S. bonds remained stable. In the same period the spread narrowed between Italy and Germany's 10-year benchmark rates.

As regards equity markets, the major stock markets rose in June. International share prices and the major European stock markets performed as follows: Dow Jones Euro Stoxx +1.5%, Standard & Poor’s 500 +3%, Nikkei 225 +5.4%, FTSE MIB +3.4%, Cac40 +0.8%, FTSE100 -0.4%, Dax30 +2.3%, Nasdaq +4.7%, TecDax +5.2%, FTSE Banks +4.8%, Dow Jones Euro Stoxx Banks +2.4% and S&P 500 Banks +4.2%.

As regards funds collected, as of June 2014, euro-denominated deposits made by customers (represented by deposits made by resident customers and by bonds) with all of the banks in Italy fell by 14.8 billion on an annual basis, recording a change in the year of -0.9%. More specifically, this trend is the result of growth in customer deposits (headline rate of +2.4% as of June) and a sharp fall in bonds (change in the year of -8.3%). The trend in foreign deposits also continues to be negative. The average remuneration of bank deposits was slightly down; in June the average rate on bank deposits came to 1.71%, compared to 1.95% in June 2013.

With respect to lending, as of June 2014, there had been an improvement in total lending at the level of the Italian banking system, although this remained negative. Total loans to residents in Italy posted an annual change of -2.2%; loans to households and non-financial companies recorded a change in the year of -1.4%. In terms of duration, the short-term segment posted a variance of -1.3%, while the medium-long term segment recorded a change of -1.4%. The trend in loans was influenced by a contraction in capital investment and the weak economic cycle.

Interest rates on new loans and on loans to households and non-financial companies have remained low. The interest rate on euro-denominated home purchase loans to households was 3.27%, the lowest it has been since July 2011. As of June, the weighted average interest rate on total loans to households and non-financial companies was up slightly at 3.86%, compared to 3.58% as of June 2013.

The spread between the average interest rate on loans and the average rate on deposits made by households and non-financial companies remained particularly low (215 basis points). Prior to the start of the financial crisis the spread exceeded 300 points.

THE GROUP

3 - THE DISTRIBUTION NETWORK

Again in the first half of 2014 the Group has maintained the same distribution structure that consists of 185 branches, of which 164 pertain to Banco di Desio e della Brianza S.p.A. and 21 pertain to Banco Desio Lazio S.p.A.

In recent years, the distribution network, which is characterised by the high centrality of the customer relationship, underwent expansion into adjacent and complementary areas. This was aimed at focusing on markets where the Group has its roots, as well as on other local opportunities, resulting in the Group having increased its presence in Lombardy and having extended it into Emilia Romagna, Piedmont, Liguria, Tuscany and Lazio.

During the first half of the year, measures were taken to restructure the distribution network with a view to strengthening its regional presence through structured and coordinated development as envisaged by the Parent Company's Corporate Affairs Department. In particular, the following measures were taken with respect to the project:

a) the establishment of "aggregate" branches, comprising of smaller branches (staffed by three employees) that report to "principal" branches, which are larger and which supervise the operations of the former; this measure was implemented in two phases, the first of which was effective as from January 2014 and the second as from May 2014, with a total of 13 “aggregate” branches;

b) the organisation of the distribution network, as from April 2014, into eight regional Areas, each of which is supervised by an Area Manager and for which it is envisaged that each will be assigned the following roles to support its Area manager:

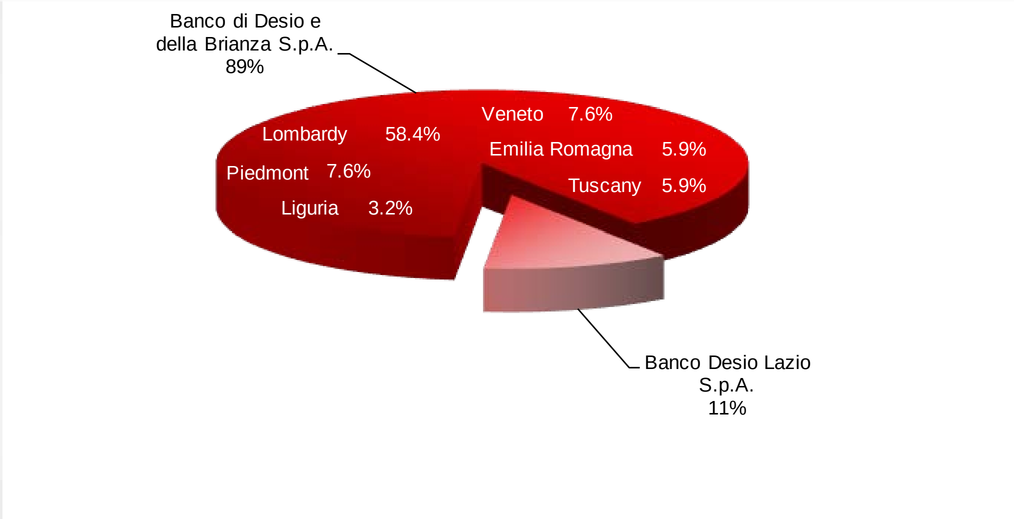
   - *Area Credit Manager and Loan Officer*, who provides support for the granting and management of credit and who intervenes in the credit granting process and in the monitoring of credit quality at aggregate level;
   - *Area Sales Manager,* who intervenes in the coordination of sales development, by applying the policy issued by the office of the Deputy General Manager of Corporate Affairs and as communicated by the Sales Department for an effective organisation of each sales campaign;
   - *Area International Banking Manager*, who handles the development of the customer base involved in international banking operations and who contributes, in addition to the achievement of sales targets, to the deployment by branches of a structured method for the analysis of customers' needs in order to correctly and effectively propose the Bank's services.

An implication of the foregoing activities was the need for investment in training the network's resources, especially for those chosen for the role of Area International Banking Manager, who undertook three weeks of targeted, personalised training at the Parent Company's International Banking Department.

The Group continued strengthening its online product offering, together with the distribution network, in a logic of multi-channel customer service alongside traditional banking services, moving towards a "virtual" bank.

The following graph gives a breakdown in percentage terms of the Group's distribution network by company and by region.

Graph no. 1 - **BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK BY BANK**



It should also be noted that, following the acquisition of control of Banca Popolare di Spoleto S.p.A., further details of which are provided in the paragraph below on "*Significant events*", in the second half of the year the distribution network will be reorganised so as to focus on the competitive positioning of the Parent Company in the North and, for Central Italy, to aim for the concentration of the Group's branches in Lazio and Tuscany within Banca Popolare di Spoleto S.p.A. An assessment will also be made of the measures needed to address the question of underperforming branches.

4 - SIGNIFICANT EVENTS

Acquisition by the Parent Company of a majority interest in Banca Popolare di Spoleto S.p.A. in Extraordinary Administration and related transactions

On having obtained the necessary approvals from the Supervisory Authorities (Bank of Italy, Antitrust Authority and Consob) in connection with the acquisition of control of Banca Popolare di Spoleto in Extraordinary Administration ("BPS") by the Parent Company Banco di Desio e della Brianza S.p.A., steps were taken to complete the transactions envisaged by the Investment Agreement that was signed on 1 April 2014, aimed at strengthening BPS's capital and a return to healthy solvency ratios and to compliance with capital for supervisory purposes, as well as the reconstitution of BPS's corporate bodies to be appointed by the Parent Company and the closure of the extraordinary administration proceedings concerning BPS.

A BPS Extraordinary Shareholders' Meeting held on 16 June 2014, approved the following motions:

- subscription of cash capital increase of Euro 139.7 million reserved for Banco di Desio e della Brianza S.p.A, after which the Parent Company will have a holding of ordinary shares in Banca Popolare di Spoleto S.p.A. in Extraordinary Administration of 72.16%;
- a cash capital increase with the exclusion of option rights, reserved for the employees of BPS pursuant to art. 5, paragraph 2, of BPS's Articles of Association, of a maximum of Euro 15.5 million, which was subscribed for on 2 July 2014 for an amount of some Euro 0.1 million and, consequently, the Parent Company's holding was confirmed as being 72.13%.

For the purpose of the preparation of this interim consolidated financial report, the foregoing did not lead to the immediate assumption of control of BPS, as defined by the relevant accounting standard (IFRS 10 – Consolidated Financial Statements), given that, at the reference date of 30 June 2014, the Bank had not yet assumed "power over the entity" and the possibility to exercise the governance thereof, being a condition that subsequently fell into place with the appointment of the Administrative and control bodies (Board of directors and Board of Statutory Auditors) that was approved at the Extraordinary and Ordinary Shareholders' Meeting held on 30 July 2014 and with the consequent closure of the extraordinary administration proceedings. The composition of the Boards has been made public as required by law.

Subsequently, the Parent Company plans to contribute to BPS the business segment consisting of the branches of the subsidiary Banco Desio Lazio S.p.A. (which is to be merged into the Parent Company, as detailed in the following paragraph) and the branches of the Parent Company located in Tuscany. Together with the capital increase and the spin-off and, subject to the effectiveness thereof, it is also envisaged that BPS will issue a maximum number of between 3,085,238 and 11,155,968 warrants, to be allocated free of charge to Spoleto Credito e Servizi S.C. in Extraordinary Administration (SCS, former Parent Company of BPS) and all the other shareholders of BPS, apart from Banco di Desio e della Brianza S.p.A., for which the conversion shares will have the same price as the subscription price for the cash capital increase reserved for the latter of Euro 1.812 per share.

We remind you that, on 1 April 2014, a Framework Agreement was entered into with SCS that envisages that SCS will be granted a loan of a maximum amount of Euro 15.0 million to help with its turnaround.

Further details of the aforementioned transactions have been made public by means of press releases issued from time to time by the Parent Company and/or by BPS.

Banco Desio considers that there is significant strategic value to be gained from BPS joining the Group, in order to achieve the following objectives:

- ✓ to expand the customer base, given the high commercial penetration of BPS in its own catchment area, making a leap in size considered to be indispensable to be able to compete in the current banking environment and in the foreseeable future;
- ✓ the rationalisation of the distribution network so as to focus on the competitive positioning of the Parent Company in the North and to aim for the concentration of the Group's branches in Lazio (with Banco Desio

Lazio) and of the branches in Tuscany within BPS, a bank characterised by a strong local brand, which is known and is well entrenched, with staff that, notwithstanding the difficult situation that the bank found itself in and the difficult economic environment, has been able to maintain a historically strong relationship with its customers that is based on trust;

- ✓ to redistribute the head office's burden to a larger «banking body», with a view to efficiency gains and synergies aimed at increasing the effectiveness of the Network's business.

Merger by absorption into the Parent Company of Banco Desio Lazio S.p.A.

On 22 July 2014, the merger deed was executed for the merger by absorption into the Parent Company, Banco di Desio e della Brianza S.p.A., of Banco Desio Lazio S.p.A. (a wholly-owned subsidiary), in implementation of the merger resolutions passed by the Boards of each of the aforementioned companies on 26 June 2014 and which have been made public along with the draft terms of merger and the Directors' Report on the merger. The merger will be legally effective as of 1 October 2014, on lodging the merger deed with the relevant Business Registers.

The completion of the proposed merger - which has its own autonomous strategic and organisational value - is expected to be coordinated together with the development of the integration plan for Banco Desio Group and Banca Popolare di Spoleto (“BPS”), as indicated in the preceding paragraph, with the result that BPS will become the Group's Bank for Central Italy. Further details of the aforementioned transaction have been made public by means of press releases issued from time to time by the Parent Company.

Note that, on 3 July 2014, an agreement on the merger was signed with the trade unions and the planned spin-off of Banco Desio Lazio's branches will not itself have any impact on jobs.

Brianfid-Lux S.A. in liquidation

As regards the liquidation of the subsidiary Brianfid-Lux S.A., on having obtained approval from the Luxembourg Financial Sector Supervisory Commission (CSSF), on 23 July 2014, a Shareholders' Meeting was held to close the liquidation proceedings and for the consequent definitive cancellation of the company.

Note that an adjustment made to the carrying amount of the investment in Brianfid-Lux S.A. at the reference date of 30 June 2014 led to the recognition in the Parent Company's financial statements of a write-back of some Euro 460 thousand.

Credito Privato Commerciale S.A. in liquidation

The liquidation of the Swiss subsidiary Credito Privato Commerciale S.A., which is proceeding at a faster rate than the liquidators had anticipated, led to a small reversal of expenses previously provided for and it is expected that the closure may be substantially completed much sooner than expected.

Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation - Legal investigations

With reference to Criminal Proceedings 22698/08, at the hearing held on 24 January 2014, the Court of Rome upheld the application for settlement presented by the subsidiaries Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation, which in 2011 became involved in these proceedings in connection with the administrative liability of legal persons pursuant to Legislative Decree 231/2001 for alleged offences committed by their former officers. The payment made for the settlement (which closed the legal proceedings in question) led to a partial release in 2013 of the provision that had previously been set up.

Tax audits

The notices of assessment in connection with the tax audit performed by the Tax Police and which were issued to the Parent Company on 27 December 2013, were accepted and settled by means of a tax settlement proposal.

As regards the issue of having allegedly claimed foreign status without justification for the foreign subsidiaries, in relation to which reference should be made to the section on "Information on risks and related hedging policy", the notices of assessment relating to CPC S.A. in liquidation were annulled in self defence by the Revenue Agency and the notices of assessment issued to the subsidiary Brianfid-Lux S.A. in liquidation were also settled by means of a tax settlement proposal.

With reference to Rovere SdG S.A., ongoing discussions are being held between the Bank (assisted by its tax advisers) and the tax authorities to close the dispute as soon as possible.

Accordingly, there has been no need to increase the provisions for risks and charges related to tax issues.

Bank of Italy Circular no. 263

On 27 January 2014, the Board of Directors of the Parent Company approved the Gap Analysis Report and the action plan that the Group has to implement in accordance with the Bank of Italy Circular no. 263 and which envisages the strengthening of internal controls, the information system and business continuity.

The measures planned for the current half year were approved by the Board on 26 June, as the result of project work that involved all the business functions, in accordance with the deadlines established by the aforementioned Circular. In particular, as regards these measures, the following aspects should be noted:

- update of the Articles of Association and of the internal regulations for corporate bodies in light of the duties assigned thereto by the new provisions;
- Amendments to "Risk management policy";
- Amendment to credit and counterparty risk management process – First and second level controls;
- Update of Compliance Model;
- Adoption of a new organisational and operational model by the Internal Audit Department;
- Adoption of Human Resources Policy setting out the policy for the management and development of human resources in compliance with supervisory requirements.

FATCA (Foreign Account Tax Compliance Act)

Effective as of 1 July 2014, an intergovernmental agreement has been entered into between the U.S. and Italian governments (Model 1 IGA) to ensure the application as national law of the Foreign Account Tax Compliance Act (FATCA), which was introduced by the U.S. Government to counteract offshore tax evasion by U.S. citizens and businesses that hide assets held in accounts in non U.S. territories and which make use of foreign financial institutions to conceal from the U.S. IRS (Internal Revenue Service) the income generated thereby; in particular, more rigid obligations have been imposed on non U.S. financial institutions (FFIs – Foreign Financial Institutions) for customer identification (U.S. and non U.S.) and for reporting requirements to the U.S. tax authorities.

In relation to this international legislation, in recent months the Parent Company took steps to ensure the implementation of the technical, procedural and organisational measures needed for the prompt application thereof. In particular, Banco Desio Group has already registered with the IRS via its portal, with the Parent Company having assumed the role of Lead FFI (company that is responsible for the coordination of the Group registration process and, in more general terms, for the supervision of FATCA compliance by all Group entities).

Disposal of held to maturity securities portfolio

At the end of January 2014, having taken into account new expectations concerning an improvement of the international macroeconomic scenario which could lead one to assume a gradual increase in the interest rate curve, the Parent Company decided to proceed with the disposal of all financial instruments included in the HTM portfolio as it was not considered appropriate to hold to maturity such fixed rate debt instruments with a medium to long term duration. The contribution to the income statement for the period ended 30 June 2014 that originated from this disposal amounted to some Euro 12.4 million. The Parent Company will not be able to utilise this category of portfolio for the next two years (so called tainting rule), but it should be borne in mind that developments in accounting standards could reverse this requirement.

Directors and officers

On 29 April 2014, the Ordinary Shareholders' Meeting appointed the Board of directors and the Board of Statutory Auditors for the years 2014-2016. The composition of these bodies - after appropriate resolutions had been passed by the Board that met at the end of the Shareholders' Meeting - is that previously reported in the relevant paragraph.

Deputy General Manager of Corporate Affairs

On 13 March 2014, the Board of Directors appointed Mr Ippolito Fabris as Deputy General Manager of Corporate Affairs.

Financial Reporting Manager

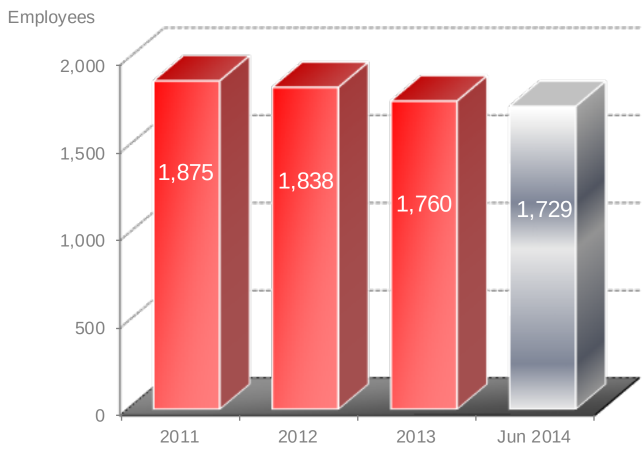
Mr Mauro Walter Colombo has been appointed as Financial Reporting Manager in accordance with art. 154-bis of the Consolidated Finance Act as a replacement for Mr Piercamillo Secchi, who went into retirement on 30 April 2014.

5 - HUMAN RESOURCES

At 30 June 2014, the Group had 1,729 employees, being a decrease of 31 persons (-1.8%) compared with the end of the previous year. This is attributable to the opening in May of the first of three “windows” for voluntary access to the Solidarity fund in accordance with the Resources programme adopted in connection with the redundancy plan (which envisages a gradual reduction in the number of middle managers).

The Group's personnel trend in recent years is shown in the following graph and this corresponds to a contraction, with an average annual rate of 3.2% as from 2012.

Graph no. 2 - **TREND IN GROUP PERSONNEL IN RECENT YEARS**



The following table provides a breakdown of employees by level at the end of the first half of the year, compared with 2013.

Table no. 1 - **BREAKDOWN OF GROUP EMPLOYEES BY LEVEL**

					Change	
No. of Employees	**30.06.2014**	**%**	**31.12.2013**	**%**	**Amount**	**%**
Managers	26	1.5%	29	1.6%	-3	-10.3%
3rd and 4th level middle managers	401	23.2%	404	23.0%	-3	-0.7%
1st and 2nd level middle managers	476	27.5%	486	27.6%	-10	-2.1%
Other personnel	826	47.8%	841	47.8%	-15	-1.8%
Group employees	**1,729**	**100.0%**	**1,760**	**100.0%**	**-31**	**-1.8%**

6 - RESULTS OF OPERATIONS

6.1 - SAVINGS DEPOSITS: CUSTOMER ASSETS UNDER ADMINISTRATION

Total customer funds under management at 30 June 2014 reached Euro 19 billion, representing an increase of some Euro 0.5 billion (2.7%) with respect to the 2013 year end balance, attributable to both direct and indirect deposits.

The composition and balances that make up this aggregate, with changes during the period, are shown in the following table.

Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**30.06.2014**	**%**	**31.12.2013**	**%**	**Change Amount**	**%**
Due to customers	5,892,509	31.0%	5,489,782	29.7%	402,727	7.3%
Debt securities in issue and Financial liabilities de	2,114,867	11.1%	2,277,709	12.3%	-162,842	-7.1%
Direct deposits	**8,007,376**	**42.1%**	**7,767,491**	**42.0%**	**239,885**	**3.1%**
Ordinary customer deposits	7,621,688	40.1%	7,454,136	40.3%	167,552	2.2%
Institutional customer deposits	3,383,277	17.8%	3,287,329	17.7%	95,948	2.9%
Indirect deposits	**11,004,965**	**57.9%**	**10,741,465**	**58.0%**	**263,500**	**2.5%**
Total customer deposits	**19,012,341**	**100.0%**	**18,508,956**	**100.0%**	**503,385**	**2.7%**

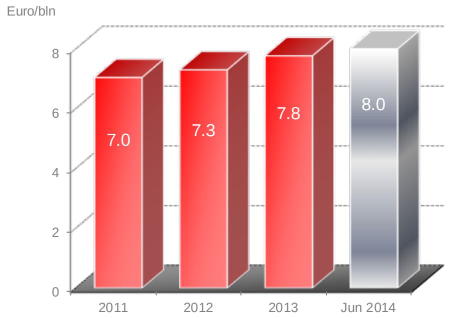
Direct deposits

Direct deposits at the end of the half-year come to Euro 8 billion, an increase of Euro 0.2 billion (+3.1%) compared with the end of 2012, thanks to the growth in amounts due to customers (+7.3%) which continue to be the most important item with 73.6%. They refer for Euro 5 billion to demand deposits, i.e. current accounts and savings deposits, and for Euro 0.9 billion to repurchase agreements and other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss of Euro 2.1 billion are down with respect to the 2013 year end balance (-7.1%) and relate to bonds issued and placed by the Group of Euro 1.9 billion and certificates of deposits of Euro 0.2 billion.

The trend in direct deposits in recent years can be seen in the following graph, corresponding to growth at an average annual rate of 5.3% as from 2012.

Graph no. 3 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



Indirect deposits

Overall, at 30 June 2014 indirect deposits recorded a rise of Euro 0.3 million, equal to 2.5% of the balance at the end of the previous year, coming in at Euro 11 billion.

Ordinary customer deposits came to some Euro 7.6 billion, representing an increase of some Euro 0.2 billion, equating to 2.2%, that was attributable to the performance of assets under management (+5.8%) partially offset by a decrease in assets under administration (-0.8%).

The increase in institutional customer deposits during the period came to around Euro 0.1 billion (+2.9%).

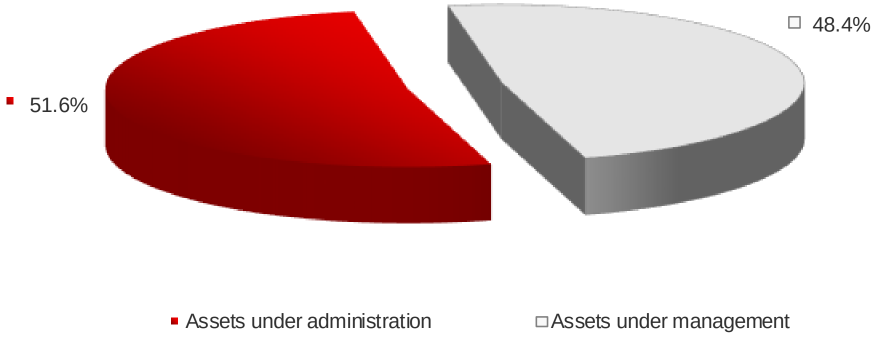
The following table provides details of the items under review, highlighting the changes that have taken place during the six-month period.

Table no. 3 - **INDIRECT DEPOSITS**

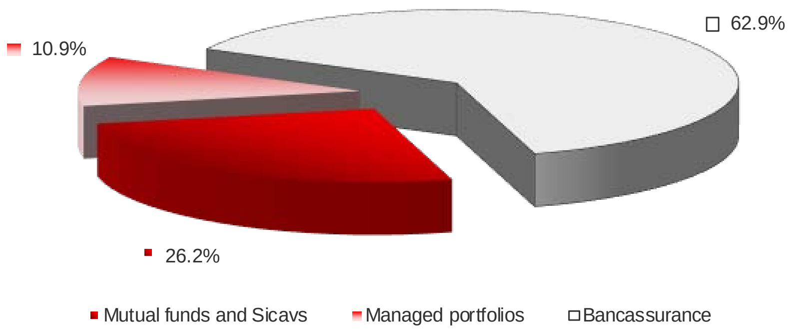
					Change	
Amounts in thousands of Euro	**30.06.2014**	**%**	**31.12.2013**	**%**	**Amount**	**%**
Assets under administration	**3,932,252**	**35.7%**	**3,965,894**	**36.9%**	**-33,642**	**-0.8%**
Assets under management	**3,689,436**	**33.6%**	**3,488,242**	**32.5%**	**201,194**	**5.8%**
of which: Mutual funds and Sicavs	*965,083*	*8.8%*	*895,981*	*8.4%*	*69,102*	*7.7%*
Managed portfolios	*404,074*	*3.7%*	*314,054*	*2.9%*	*90,020*	*28.7%*
Bancassurance	*2,320,279*	*21.1%*	*2,278,207*	*21.2%*	*42,072*	*1.8%*
Ordinary customer deposits	**7,621,688**	**69.3%**	**7,454,136**	**69.4%**	**167,552**	**2.2%**
Institutional customer deposits	**3,383,277**	**30.7%**	**3,287,329**	**30.6%**	**95,948**	**2.9%**
Indirect deposits	**11,004,965**	**100.0%**	**10,741,465**	**100.0%**	**263,500**	**2.5%**

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 June 2014. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how the "life" bancassurance component constitutes the largest share at two thirds of the total.

Graph no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2014**



Graph no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2014**



With respect to the components of mutual funds and Sicavs and Managed portfolios, as regards bonds, the exposure to interest rate risk increased due to purchases of Italian and Spanish government bonds, as well as corporate bonds. With regard to assets that are more at risk, a preference was shown for exposures towards emerging nations as opposed to bonds with a low credit rating.

As regards the equity component, the exposure was maintained in line with the benchmark, whereas a preference was shown for companies with large capitalisation, with a sound financial position and good dividends. Geographically, the exposure increased towards Italy and decreased towards Asia and the emerging nations. For the entire period, a feature of the portfolios was a high degree of diversification.

6.2 - LOANS TO CUSTOMERS

Despite a slowdown in the demand for credit at system level, the total value of loans to ordinary customers at the end of the first half increased to Euro 7 billion, some Euro 0.2 billion more than at the end of 2013, while loans to institutional customers, which consist entirely of repurchase agreements that amounted to Euro 0.5 billion at the end of the period, were up by Euro 0.4 billion.

The Group's lending activity led to a total value of net loans to customers of Euro 7.5 billion at 30 June 2014, with a positive change of 7.6%. The following graph shows the trend in net loans to customers in recent years, giving an average annual compound growth rate of 5.3% from 2012.

Graph no. 6 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**

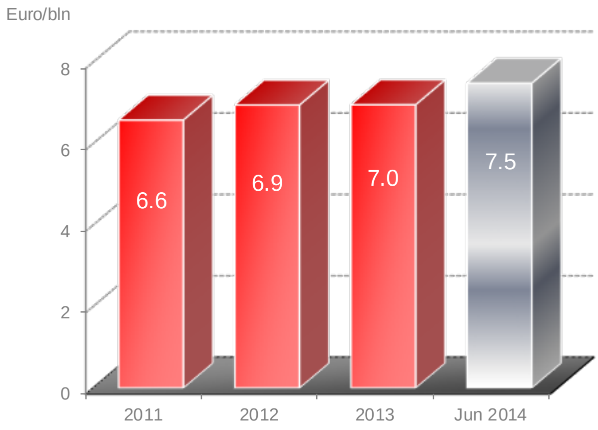


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	30.06.2014	%	31.12.2013	%	Change Amount	Change %
Current accounts	1,541,139	20.6%	1,507,202	21.7%	33,937	2.3%
Repurchase agreements	6,955	0.1%	18	0.0%	6,937	n.s.
Mortgages and other long-term loans	4,603,659	61.5%	4,572,240	65.7%	31,419	0.7%
Other	845,933	11.3%	758,027	10.9%	87,906	11.6%
Loans to ordinary customers	**6,997,686**	**93.5%**	**6,837,487**	**98.3%**	**160,199**	**2.3%**
Repurchase agreements	487,818	6.5%	117,942	1.7%	369,876	313.6%
Loans to institutional customers	**487,818**	**6.5%**	**117,942**	**1.7%**	**369,876**	**313.6%**
Loans to customers	**7,485,504**	**100.0%**	**6,955,429**	**100.0%**	**530,075**	**7.6%**

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of the half-year continues to reflect a high degree of risk diversification, as shown in the following table.

Table no. 5 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers [(1) (2)]	**30.06.2014**	**31.12.2013**
First 10	1.3%	1.5%
First 20	2.3%	2.5%
First 30	3.1%	3.3%
First 50	4.4%	4.6%

(1) according to the figures of the Parent Company and the subsidiary Banco Desio Lazio S.p.A.

(2) net of repurchase agreements with institutional counterparties of Euro 487.8 million at 30.06.2014 and Euro 117.9 million at 31.12.2013

In compliance with supervisory regulations in force, at the end of the first half of 2014, three positions were identified that are classifiable as “Major risks” and which amount to a total nominal value (inclusive of guarantees given and commitments) of some Euro 1.9 billion, which, in terms of the total weighted amount, comes to Euro 0.1 billion. However, these positions relate to the Treasury Ministry (they consist of investments in Italian government bonds at Group level), to Cassa di Compensazione Garanzia S.p.A. and to Banca Popolare di Spoleto S.p.A., with the latter relating to the acquisition of an equity interest by the Parent Company for Euro 139.7 million (as detailed in the foregoing paragraph on *“Significant events”*), as well as to loans granted thereto by the Parent Company of Euro 179.7 million and to Euro 70 million as a margin on this same credit line.

With the explosion of litigation in recent years at the level of the banking system related to the negative and continuing economic crisis, the Group has continued with its commitment to render the monitoring of exposures more systematic, as well as to increase the degree of analysis of investigatory functions.

The total amount of net non-performing loans at 30 June 2014, made up of doubtful loans, watchlist loans, past due loans (i.e. persistent breaches with continuous overruns), as well as restructured loans, came to Euro 471.8 million, net of adjustments of Euro 266.6 million, an increase of Euro 12.8 million compared with 31 December 2013.

In particular, net doubtful loans totalled Euro 273 million, net watchlist loans Euro 166.7 million, past due loans Euro 27.8 million and restructured loans Euro 4.3 million.

The following table summarises the gross and net indicators relating to credit risk at 30 June 2014, showing figures that are in line with figures at the end of the previous year.

Table no. 6 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% of gross loans	**30.06.2014**	**31.12.2013**
Gross non-performing loans to customers	9.47%	9.48%
of which:		
- gross doubtful loans	5.97%	5.34%
- gross watchlist loans	3.06%	3.44%
- gross past due loans	0.38%	0.68%
- gross restructured loans	0.06%	0.03%

% of net loans	**30.06.2014**	**31.12.2013**
Net non-performing loans to customers	6.30%	6.60%
of which:		
- net doubtful loans	3.65%	3.35%
- net watchlist loans	2.23%	2.56%
- net past due loans	0.37%	0.67%
- net restructured loans	0.06%	0.02%

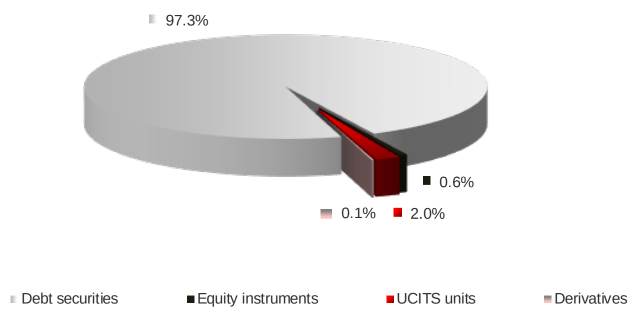
6.3 - THE SECURITIES PORTFOLIO AND INTERBANK POSITION

Securities portfolio

At 30 June 2014, the Group's total financial assets amounted to some Euro 1.3 billion, a decrease of some Euro 0.3 billion compared with the end of 2013, mainly attributable to the disposal of all financial instruments included in the Held To Maturity portfolio, as previously indicated in the paragraph on *"Significant events".*

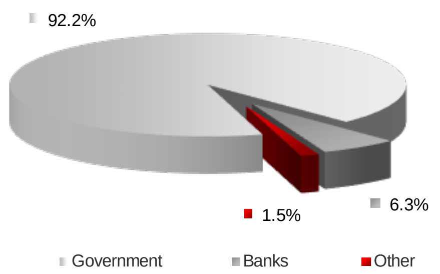
The breakdown of the portfolio by type of security is shown in the following graph, which shows that almost all (97.8%) of the total investment relates to debt securities.

Graph no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2014 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the half-year, 92.2% relates to government securities, 6.3% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Graph no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2013 BY TYPE OF ISSUER**



With a market characterised by periods of uncertainty and volatility, the Group was rewarded for its shrewd business strategy by the achievement of favourable results. Strategically, the floating rate securities component was increased and certain positions were decreased, particularly those on the extremely short term part of the curve, for which the yield is rather compressed.

Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2014 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

Table no. 7 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		**Italy**	**30.06.2014**
Financial assets held for trading	Nominal value	24	24
	Book value	28	28
Financial assets available for sale	Nominal value	1,137,000	1,137,000
	Book value	1,148,139	1,148,139
Sovereign debt	**Nominal value**	**1,137,024**	**1,137,024**
	Book value	**1,148,167**	**1,148,167**

Table no. 8 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		**Italy**	**30.06.2014**	
			Nominal value	**Book value**
Financial assets held for trading	up to 1 year			
	1 to 3 years			
	3 to 5 years	24	24	28
	over 5 years			
	Total	24	24	28
Financial assets available for sale	up to 1 year	250,000	250,000	249,761
	1 to 3 years	462,000	462,000	466,379
	3 to 5 years	100,000	100,000	101,019
	over 5 years	325,000	325,000	330,980
	Total	1,137,000	1,137,000	1,148,139
Sovereign debt	**up to 1 year**	**250,000**	**250,000**	**249,761**
	1 to 3 years	**462,000**	**462,000**	**466,379**
	3 to 5 years	**100,024**	**100,024**	**101,047**
	over 5 years	**325,000**	**325,000**	**330,980**
	Total	**1,137,024**	**1,137,024**	**1,148,167**

Net interbank position

The Group's net interbank position at 30 June 2014 is a positive balance of less than Euro 0.1 billion, compared with the negative position at the year end of Euro 0.2 billion.

The net balance includes an amount due from Banca Popolare di Spoleto S.p.A. for current account financing of Euro 179.8 million provided by the Parent Company.

With reference to treasury activities, the excess liquidity was largely invested in the MMF market.

6.4 - SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity pertaining to the Parent Company at 30 June 2014, including net profit for the period, amounts to Euro 852.4 million, compared with Euro 818.7 million at the end of 2013.

The following table shows the reconciliation of shareholders' equity and net result for the period of the Parent Company and the corresponding consolidated figures at 30 June 2014, also explaining the economic and financial effects related to the liquidation of the Swiss subsidiary Credito Privato Commerciale S.A. and the Luxembourg subsidiary Brianfid-Lux S.A.

Table no. 9 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET RESULT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Parent Company balances at 30 June 2014	**811,555**	***28,175***
Effect of consolidation of subsidiaries	39,369	*4,008*
- of which: attributable to the consolidation ofCredito Privato Commerciale S.A. in liq	*-3,232*	*1,257*
- of which: attributable to the consolidation of Brianfid-Lux S.A. in liquidation	*574*	*475*
Effect of valuation of associates at net equity	1,506	*557*
Dividends collected during the period	-	*-1,643*
Other changes	6	*6*
Consolidated balances at 30 June 2014	**852,436**	**31,103**

Shareholders' equity calculated in accordance with the new regulatory provisions (Bank of Italy Circulars nos. 285 and 286 and EU Regulation 575/2013), which is defined as Own Funds, with an expected pay out of not more than 40%, amounts at the end of the first half to Euro 831.3 million, while the figure at 31.12.2013 recomputed in accordance with the new regulations amounts to Euro 815.3 million (Capital for supervisory purposes under the previous regulations amounted to Euro 823.3 million).

The new harmonised framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26/6/2013 is applicable from 1 January 2014; it transposes the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union. The Basel Committee has sought to improve the resilience of the banking system by pursuing - among other things - the objective to raise the quality of capital for supervisory purposes in order to increase the banks' ability to absorb losses. In particular, the new provisions enhance the importance of ordinary shares as a component of capital and extend and harmonise the list of amounts to be deducted and of prudential adjustments.

At 30 June 2014, the Common Equity Tier 1 ratio (Common Equity Tier 1 (CET 1)/Risk-weighted assets) came to 12.8% (versus the minimum requirement provided for by the regulations of 4.5%). The Tier 1 ratio (Core Tier 1 capital (T1)/Risk-weighted assets) came to 12.9%, while the Total capital ratio (total Own Funds/Risk-weighted assets) came to 13.4% (versus the minimum requirements provided for by the regulations of 6% and 8%, respectively, and versus 10.50% inclusive of the capital reserve, which for groups is set at 2.50%). The capital ratios computed previously on the basis of regulations that have now been superseded do not provide meaningful comparatives.

The new prudential regulations have imposed a capital reserve that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process. As from 2014, banking groups are required to have a consolidated capital preservation reserve of 2.5%. The Group's Common Equity Tier 1 is well above this new prudential requirement.

6.5 - RECLASSIFIED INCOME STATEMENT

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the *condensed interim financial statements*, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 220 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 210 "Net adjustments to intangible assets" included in "Operating expenses";
- the share of profits for the period relating to investments in associated companies is reclassified from caption 240 "Profit (loss) from equity investments" to "Profit from associates";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" after "Operating profit";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions coming after the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off", as well as gains on disposal of financial assets available for sale, have been reclassified to the caption "Extraordinary provisions for risks and charges/other provisions and expenses / gains on disposal of financial assets held to maturity";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 290 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown by the following table, which presents the reclassified income statement with prior period comparatives, the first half of 2014 closed with a net profit attributable to the Parent Company of Euro 31.1 million, compared with a net loss of Euro 4.4 million reported for the first half of 2013.

Table no. 10 - **RECLASSIFIED INCOME STATEMENT**

Captions				Change	
Amounts in thousands of Euro		**30.06.2014**	**30.06.2013**	**Amount**	**%**
10+20	Net interest income	102,136	92,413	9,723	10.5%
70	Dividends and similar income	88	117	-29	-24.8%
	Profit from associates	557	372	185	49.7%
40+50	Net commission income	55,765	53,191	2,574	4.8%
80+90+100+110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	30,661	28,200	2,461	8.7%
220	Other operating income/expense	9,494	9,691	-197	-2.0%
	Operating income	**198,701**	**183,984**	**14,717**	**8.0%**
180 a	Payroll costs	-68,190	-68,573	383	-0.6%
180 b	Other administrative costs	-32,809	-34,009	1,200	-3.5%
200+210	Net adjustments to property, plant and equipment and intangible assets	-4,543	-4,656	113	-2.4%
	Operating costs	**-105,543**	**-107,238**	**1,695**	**-1.6%**
	Result of operations	**93,158**	**76,746**	**16,412**	**21.4%**
	Gains (Losses) on disposal or repurchase of loans	-448	0	-448	
130 a	Net impairment adjustments to loans and advances	-56,114	-69,804	13,689	-19.6%
130 b	Net impairment adjustments to financial assets available for sale	215	0	215	
130 d	Net impairment adjustments to other financial assets	652	-121	773	n.s.
190	Net provisions for risks and charges	314	-3,265	3,580	n.s.
	Profit (loss) from operations before tax	**37,777**	**3,556**	**34,221**	**962.3%**
290	Income taxes on current operations	-13,986	-9,128	-4,857	53.2%
	Profit (loss) from operations after tax	**23,791**	**-5,572**	**29,363**	**n.s.**
240+270	Profit (loss) from investments and disposal of investments	0	11,792	-11,792	-100.0%
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity	10,940	-15,598	26,538	n.s.
	Non-recurring profit (loss) before tax	**10,940**	**-3,806**	**14,746**	**n.s.**
	Income taxes from non-recurring items	-3,582	4,997	-8,579	n.s.
	Non-recurring profit (loss) after tax	**7,358**	**1,191**	**6,167**	**517.7%**
320	**Net profit (loss) for the period**	**31,149**	**-4,381**	**35,530**	**n.s.**
330	Minority interests	-46	-43	-3	-7.0%
340	**Parent Company net profit (loss)**	**31,103**	**-4,424**	**35,527**	**n.s.**

In order to facilitate the reconciliation of the reclassified income statement with the financial statements, a reconciliation that shows the numbers corresponding to the aggregated captions and reclassified balances is shown below for each period.

Table no. 11 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME**

Captions		As per financial statements	Reclassifications							Reclassified income statement
	Amounts in thousands of Euro	**30.06.2014**	Gains on disposal of financial assets held to maturity	Recovery of taxes	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**30.06.2014**
10+20	Net interest income	102,136								102,136
70	Dividends and similar income	88								88
	Profit from associates				557					557
40+50	Net commission income	55,765								55,765
80+90+100 +110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	42,641	-12,428				448			30,661
150+160	Result of insurance operations	0								0
220	Other operating income/expense	20,275		-11,876		1,094				9,494
	Operating income	**220,905**	**-12,428**	**-11,876**	**557**	**1,094**	**448**	**0**	**0**	**198,701**
180 a	Payroll costs	-68,321						131		-68,190
180 b	Other administrative costs	-46,042		11,876				1,357		-32,809
200+210	Net adjustments to property, plant and equipment and intangible assets	-3,449				-1,094				-4,543
	Operating costs	**-117,812**	**0**	**11,876**	**0**	**-1,094**	**0**	**1,488**	**0**	**-105,543**
	Result of operations	**103,093**	**-12,428**	**0**	**557**	**0**	**448**	**1,488**	**0**	**93,158**
	Gains (Losses) on disposal or repurchase of loans						-448			-448
130 a	Net impairment adjustments to loans and advances	-56,259						145		-56,114
130 b	Net impairment adjustments to financial assets available for sale	215								215
130 d	Net impairment adjustments to other financial assets	652								652
190	Net provisions for risks and charges	459						-145		314
	Profit (loss) from operations before tax	**48,160**	**-12,428**	**0**	**557**	**0**	**0**	**1,488**	**0**	**37,777**
290	Income taxes on current operations	-17,568							3,582	-13,986
	Profit (loss) from operations after tax	**30,592**	**-12,428**	**0**	**557**	**0**	**0**	**1,488**	**3,582**	**23,791**
240+270	Profit (loss) from investments and disposal of investments	557			-557					0
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity		12,428					-1,488		10,940
	Non-recurring profit (loss) before tax	**557**	**12,428**	**0**	**-557**	**0**	**0**	**-1,488**	**0**	**10,940**
	Income taxes from non-recurring items								-3,582	-3,582
	Non-recurring profit (loss) after tax	**557**	**12,428**	**0**	**-557**	**0**	**0**	**-1,488**	**-3,582**	**7,358**
320	**Net profit (loss) for the period**	**31,149**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**31,149**
330	Minority interests	-46								-46
340	**Parent Company net profit (loss)**	**31,103**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**31,103**

Table no. 12 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT**

	Captions	As per financial statements	Reclassifications							Reclassified income statement
	Amounts in thousands of Euro	**30.06.2013**	Gains on disposal of financial assets held to maturity	Recovery of taxes	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**30.06.2013**
10+20	Net interest income	92,382							31	92,413
70	Dividends and similar income	117								117
	Profit from associates				372					372
40+50	Net commission income	53,191								53,191
80+90+100 +110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	28,200					0			28,200
150+160	Result of insurance operations	0								0
220	Other operating income/expense	18,074		-9,688		1,305				9,691
	Operating income	**191,964**	**0**	**-9,688**	**372**	**1,305**	**0**	**0**	**31**	**183,984**
180 a	Payroll costs	-84,171						15,598		-68,573
180 b	Other administrative costs	-43,697		9,688						-34,009
200+210	Net adjustments to property, plant and equipment and intangible assets	-3,351				-1,305				-4,656
	Operating costs	**-131,219**	**0**	**9,688**	**0**	**-1,305**	**0**	**15,598**	**0**	**-107,238**
	Result of operations	**60,745**	**0**	**0**	**372**	**0**	**0**	**15,598**	**31**	**76,746**
	Gains (Losses) on disposal or repurchase of loans						0			0
130 a	Net impairment adjustments to loans and advances	-69,864						60		-69,804
130 b	Net impairment adjustments to financial assets available for sale	0								0
130 d	Net impairment adjustments to other financial assets	-121								-121
190	Net provisions for risks and charges	-3,205						-60		-3,265
	Profit (loss) from operations before tax	**-12,445**	**0**	**0**	**372**	**0**	**0**	**15,598**	**31**	**3,556**
290	Income taxes on current operations	-4,100							-5,028	-9,128
	Profit (loss) from operations after tax	**-16,545**	**0**	**0**	**372**	**0**	**0**	**15,598**	**-4,997**	**-5,572**
240+270	Profit (loss) from investments and disposal of investments	12,164			-372					11,792
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity		0					-15,598		-15,598
	Non-recurring profit (loss) before tax	**12,164**	**0**	**0**	**-372**	**0**	**0**	**-15,598**	**0**	**-3,806**
	Income taxes from non-recurring items								4,997	4,997
	Non-recurring profit (loss) after tax	**12,164**	**0**	**0**	**-372**	**0**	**0**	**-15,598**	**4,997**	**1,191**
320	**Net profit (loss) for the period**	**-4,381**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-4,381**
330	Minority interests	-43								-43
340	**Parent Company net profit (loss)**	**-4,424**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-4,424**

Based on the above, the breakdown and changes in the main reclassified income statement captions are summarised below.

Operating income

Core revenues increased by 8% on the first half of the prior year, rising to Euro 198.7 million, being an increase of Euro 14.7 million. The increase is mainly attributable to *net interest income* which, at Euro 102.1 million, has increased by some Euro 9.7 million, or 10.5%.

There have also been increases in *net commission income,* which, at Euro 55.8 million, has increased by Euro 2.5 million (+4.8%), in the aggregate of *net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss* of Euro 2.5 million (+8.7%) (net of a contribution of some Euro 12.4 million before tax originating from the disposal by the Parent Company of all financial instruments included in its HTM (Held To Maturity) portfolio that has been reclassified to Non-recurring profit (loss)) and in the contribution from *profit from associates* of some Euro 0.6 million (up by Euro 0.2 million), mainly relating to the share of profit earned by Chiara Assicurazioni S.p.A., while *other operating income/expense* decreased by Euro 0.2 million.

Looking at the following table, which shows a breakdown of *net commission income* by type, of particular note is the increase pertaining to services relating to financial instruments.

Table no. 13 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	30.06.2014	%	30.06.2013	%	Change Amount	Change %
Collection and payment services	9,400	16.9%	9,342	17.6%	58	0.6%
Placement, custody, admin. of securities & other	4,097	7.4%	2,920	5.5%	1,177	40.3%
Managed portfolios and order taking	6,599	11.8%	5,850	11.0%	749	12.8%
Distribution of insurance products	3,912	7.0%	3,961	7.4%	-49	-1.2%
Maintenance and management of current accounts	25,672	46.0%	25,346	47.6%	326	1.3%
Other commission	6,085	10.9%	5,772	10.9%	313	5.4%
Net commission income	**55,765**	**100.0%**	**53,191**	**100.0%**	**2,574**	**4.8%**

Operating costs

Operating costs, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets, show a contraction of 1.6% with respect to the comparative period, coming in at Euro 105.5 million. The recovery is mainly attributable to *other administrative costs*, which, net of advisory costs relating to the acquisition of control of Banca Popolare di Spoleto S.p.A. of Euro 1.4 million and which have been reclassified under Non-recurring profit (loss), have decreased by Euro 1.2 million (-3.5%) and to *payroll costs,* which, net of an amount of Euro 0.1 million relating to the release of the impact of having discounted, in accordance with IAS, the Solidarity fund and early retirement incentives as per the Redundancy Plan and which have been reclassified under Non-recurring profit (loss), have decreased by Euro 0.4 million (-0.6%). *Net adjustments to property, plant and equipment and intangible assets* have also decreased, in this case by Euro 0.1 million, corresponding to 2.4%.

Result of operations

The result of operations at the end of the first half of the year therefore comes to Euro 93.2 million, an increase of 21.4% on the same period last year, i.e. Euro 16.4 million.

Profit (loss) from operations after tax

Net impairment adjustments to loans and advances of Euro 56.1 million, which are down on the comparative period by Euro 69.8 million, *losses on disposal or repurchase of loans* of Euro 0.5 million, the sum of *net impairment adjustments to financial assets available for sale* plus *net impairment adjustments to other financial assets* of Euro 0.9 million, *net provisions for risks and charges* of Euro 0.3 million, as well as *taxes on income from continuing operations* of Euro 14 million, representing an increase of Euro 4.9 million, lead to a *net profit from operations after tax* of Euro 23.8 million.

The result for the first half of the previous year was a loss from operations after tax of Euro 5.6 million.

Non-recurring profit after tax

The *non-recurring profit after tax* for the first half comes to some Euro 7.3 million, attributable to a contribution of some Euro 12.4 million before tax originating from the disposal by the Parent Company of all financial instruments included in its HTM (Held To Maturity) portfolio, advisory costs relating to the acquisition of control of Banca Popolare di Spoleto S.p.A. of Euro 1.4 million, the impact of having discounted, in accordance with IAS, the Solidarity fund and early retirement incentives as per the Redundancy Plan of Euro 0.1 million and to the tax effect on the foregoing, which had a total net negative impact of some Euro 3.6 million.

Non-recurring profit after tax for the first half of the prior year amounted to Euro 1.2 million and consisted of the gain realised by way of price adjustment on the sale in late 2012 by the Parent Company of the residual 30% of the former associate Chiara Vita S.p.A. amounting to Euro 5.9 million, of the capital gain realised on the sale of a controlling interest in Chiara Assicurazione S.p.A. (from 66.66% to 32.7%) amounting to Euro 4.6 million, together with the impact on the income statement of the change in the method of consolidation of this company, which had become an associate (Euro 1.3 million). In addition, there was the estimated impact of one-off charges relating to the measures concerning human resources in implementation of the Group's 2013-2015 Business Plan of 15.6 million before tax, the tax effect thereon, on the capital gains referred to above, as well as on the step-up for tax purposes pursuant to Legislative Decree 185/2008, with respect to the subsidiary Banco Desio Lazio S.p.A., of the goodwill included in the carrying value of the investment in Fides S.p.A. and recorded in the Group consolidated financial statements at an amount of Euro 0.9 million, providing a further total net contribution to this aggregate of approximately Euro 5 million.

Parent Company net profit (loss)

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests, leads to the *Parent Company net profit* for the period ended 30 June 2014 of Euro 31.1 million, which compares with a negative result for the comparative period of Euro 4.4 million.

7 - SIGNIFICANT SUBSEQUENT EVENTS

No particularly significant events have taken place since the period end other than those disclosed under "*Significant events",* particularly in the paragraphs on "Acquisition by the Parent Company of a majority interest in Banca Popolare di Spoleto S.p.A. in Extraordinary Administration and related transactions", "Merger by absorption into the Parent Company of Banco Desio Lazio S.p.A.", "Brianfid-Lux S.A. in liquidation" and "FATCA (Foreign Account Tax Compliance Act)".

8 - OTHER INFORMATION

8.1 - RATINGS

On 10 July 2014, as part of a rating survey involving seven medium sized Italian banks, Fitch Ratings confirmed the ratings of Banco di Desio e della Brianza S.p.A., namely:

- Long Term Issuer Default Rating: "BBB+" (on Rating Watch Negative)
- Short Term Issuer Default Rating: "F2" (on Rating Watch Negative)
- Viability rating: "bbb+" (on Rating Watch Negative)

and also confirmed the following other ratings:

- Support Rating: "4"
- Support Rating Floor: "B+"

The ratings reflect earnings that are more resilient than those of competitors, a policy of prudent lending and a good level of diversification of the loan portfolio by type of customer and by sector; this results in asset quality ratios that are better than the average for the Italian banking system. Banco Desio confirms it has an excellent capitalisation.

The Agency is waiting to resolve the negative rating outlooks after the completion of the acquisition of Banca Popolare di Spoleto, which is expected to take place by the end of the second half of 2014.

8.2 - EXISTENCE OF THE CONDITIONS OF ARTS. 36 AND 37 OF CONSOB'S MARKET REGULATIONS

The conditions laid down in arts. 36 and 37 of Consob's Market Regulations (Resolution 16191 of 29 October 2007) continue to apply, in this case with reference to the "non-EU" company CPC S.A. in liquidation, which is controlled by the Parent Company, and to Brianza Unione di Luigi Gavazzi & C. S.a.p.a., the holding company of the Parent Company, as reported in the Group's "Annual Report on Corporate Governance and Corporate Structure" required by art. 123-bis of the CFA and made available on the website www.bancodesio.it, Banco Desio - Corporate Governance Section.

8.3 - TRANSACTIONS WITH RELATED PARTIES

For a description of the procedures governing transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and/or with associated persons (pursuant to art. 53 of the Consolidated Banking Act), reference should be made to paragraph 5 of the “Annual Report on Corporate Governance”, which is available on the Group's website pursuant to art. 123-bis of the CFA in the section on "Corporate Governance", as well as on the website of the subsidiary Banco Desio Lazio S.p.A. in respect of the provisions that specifically apply thereto. For further information, please refer to the specific section of the *condensed interim financial statements*.

8.4 - INFORMATION ON INCENTIVE PLANS (STOCK GRANTS)

At the end of the first half of 2014 there are incentive plans in place in the form of stock grants for the three-year period 2011-2012-2013 involving a bonus allocation of ordinary shares of the Parent Company Banco di Desio e della Brianza S.p.A. to Group management, approved by the Ordinary Shareholders' Meeting on 29 November 2011. Note that the bonus system in which this Plan operated was revised by Board resolution on 19 December 2013; please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with Article. 123-ter CFA.

9 - OUTLOOK FOR THE REST OF 2014 AND PRINCIPAL RISKS AND UNCERTAINTIES

The results achieved by the Group for the first half of the year and the future prospects, as previously indicated, infer that the earnings targets for 2014 will be met, even taking account of certain risks that could potentially arise from the business combination with BPS as a result of having assumed the governance thereof.

As regards the principal risks and uncertainties, note that this report and, more generally, the consolidated interim financial report at 30 June 2014 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

The paragraph on the macroeconomic scenario explains the state of the world economy and financial markets with the principal risks that they involve, while the controls over the Bank's operations and the various types of risk are described in detail in the section "Information on risks and related hedging policy" in the *condensed interim financial statements*. Further information on these controls are contained in the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA.

Desio, 7 August 2014

The Board of Directors
Banco di Desio e della Brianza S.p.A.

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

AT 30 June 2014

FINANCIAL STATEMENTS

Consolidated balance sheet

Assets

Assets	30.06.2014	31.12.2013	Change amount	Change %
10. Cash and cash equivalents	33,448	29,848	3,600	12.06%
20. Financial assets held for trading	2,085	2,798	(713)	-25.48%
40. Financial assets available for sale	1,268,626	1,423,419	(154,793)	-10.87%
50. Financial assets held to maturity	0	181,568	(181,568)	-100.00%
60. Due from banks	513,119	275,848	237,271	86.02%
70. Loans to customers	7,485,504	6,955,429	530,075	7.62%
80. Hedging derivatives	3,909	5,052	(1,143)	-22.62%
100. Equity investments	153,810	13,969	139,841	n.s.
120. Property, plant and equipment	147,855	144,417	3,438	2.38%
130. Intangible assets	25,740	25,506	234	0.92%
of which:				
- goodwill	23,533	23,533		0.00%
140. Tax assets	95,886	93,856	2,030	2.16%
a) current	74	5,118	(5,044)	-98.55%
b) deferred	95,812	88,738	7,074	7.97%
of which Law 214/2011	85,272	78,225	7,047	9.01%
160. Other assets	137,798	118,581	19,217	16.21%
Total assets	**9,867,780**	**9,270,291**	**597,489**	**6.45%**

Liabilities

Liabilities and shareholders' equity	30.06.2014	31.12.2013	Change amount	Change %
10. Due to banks	471,229	438,026	33,203	7.58%
20. Due to customers	5,892,509	5,489,782	402,727	7.34%
30. Debt securities in issue	2,086,249	2,239,092	(152,843)	-6.83%
40. Financial liabilities held for trading	327	480	(153)	-31.88%
50. Financial liabilities designated at fair value through profit and	28,618	38,617	(9,999)	-25.89%
60. Hedging derivatives	0	2,894	(2,894)	-100.00%
80. Tax liabilities	23,215	14,832	8,383	56.52%
a) current	7,491	2,825	4,666	165.17%
b) deferred	15,724	12,007	3,717	30.96%
100. Other liabilities	452,229	164,639	287,590	174.68%
110. Provision for termination indemnities	24,524	23,971	553	2.31%
120. Provisions for risks and charges:	36,287	39,021	(2,734)	-7.01%
a) pensions and similar commitments	27	27		0.00%
b) other provisions	36,260	38,994	(2,734)	-7.01%
140. Valuation reserves	33,336	29,200	4,136	14.16%
170. Reserves	704,147	710,666	(6,516)	-0.92%
180. Share premium reserve	16,145	16,145		0.00%
190. Share capital	67,705	67,705		0.00%
210. Minority interests	157	221	(64)	-28.96%
220. Net profit (loss) for the period (+/-)	31,103	(5,000)	36,103	-722.06%
Total liabilities and shareholders' equity	**9,867,780**	**9,270,291**	**597,489**	**6.45%**

Consolidated income statement

	30.06.2014	30.06.2013	Change amount	Change %
10. Interest and similar income	156,756	156,640	116	0.07%
20. Interest and similar expense	(54,620)	(64,258)	9,638	-15.00%
30. Net interest income	**102,136**	**92,382**	**9,754**	**10.56%**
40. Commission income	64,090	61,838	2,252	3.364%
50. Commission expense	(8,325)	(8,647)	322	-3.72%
60. Net commission income	**55,765**	**53,191**	**2,574**	**4.83%**
70. Dividends and similar income	88	117	(29)	-24.78%
80. Net trading income	1,185	934	251	26.87%
90. Net hedging gains (losses)	(1,082)	(151)	(931)	616.56%
100. Gains (losses) on disposal or repurchase of:	42,905	27,972	14,933	53.38%
a) loans	(448)		(448)	
b) financial assets available for sale	32,244	28,158	4,086	14.51%
c) financial assets held to maturity	12,428		12,428	
d) financial liabilities	(1,319)	(186)	(1,133)	609.14%
110. Net results on financial assets and liabilities designated at fair value	(367)	(555)	188	-33.87%
120. Net interest and other banking income	**200,630**	**173,890**	26,740	**15.38%**
130. Net impairment adjustments to:	(55,392)	(69,985)	14,593	-20.85%
a) loans	(56,259)	(69,864)	13,605	-19.47%
b) financial assets available for sale	215		215	
c) financial assets held to maturity				
d) other financial assets	652	(121)	773	n.s.
140. Net profit from financial activities	**145,238**	**103,905**	**41,333**	**39.78%**
170. Net profit from financial and insurance activities	**145,238**	**103,905**	**41,333**	**39.78%**
180. Administrative costs:	(114,363)	(127,868)	13,505	-10.56%
a) payroll costs	(68,321)	(84,171)	15,850	-18.83%
b) other administrative costs	(46,042)	(43,697)	(2,345)	5.37%
190. Net provisions for risks and charges	459	(3,205)	3,664	n.s.
200. Net adjustments to property, plant and equipment	(2,929)	(2,893)	(36)	1.24%
210. Net adjustments to intangible assets	(520)	(458)	(62)	13.54%
220. Other operating charges/income	20,275	18,074	2,201	12.18%
230. Operating costs	**(97,078)**	**(116,350)**	**19,272**	**-16.56%**
240. Profit (loss) from equity investments	557	12,164	(11,607)	-95.42%
260. Adjustments to goodwill				
280. Profit (loss) from current operations before tax	**48,717**	**(281)**	**48,998**	**n.s.**
290. Income taxes on current operations	(17,568)	(4,100)	(13,468)	328.49%
300. Profit (loss) from current operations after tax	**31,149**	**(4,381)**	**35,530**	**n.s.**
320. Net profit (loss) for the period	**31,149**	**(4,381)**	**35,530**	**n.s.**
330. Net profit (loss) pertaining to minority interests	(46)	(43)	(3)	-6.98%
340. Parent Company net profit (loss)	**31,103**	**(4,424)**	**35,527**	**n.s.**

Statement of comprehensive income

	Captions	30.06.2014	30.06.2013
10.	**Net profit (loss) for the period**	**31,149**	**(4,381)**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Actuarial gains (losses) on defined-benefit pension plans	(1,094)	415
50.	Non-current assets and disposal groups held for sale	-	-
60.	Portion of the valuation reserves of the equity investments carried at equity	-	-
	Other elements of income, net of income taxes with reversal to income statement		
70.	Foreign investment hedges	-	-
80.	Exchange differences	-	(347)
90.	Cash-flow hedges	-	-
100.	Financial assets available for sale	5,228	(10,630)
110.	Non-current assets and disposal groups held for sale	-	-
120.	Portion of the valuation reserves of the equity investments carried at equity	2	170
130.	**Total other elements of income (net of income taxes)**	**4,136**	**(10,392)**
140.	**Total comprehensive income (Captions 10+110)**	**35,285**	**(14,773)**
150.	Total comprehensive income pertaining to minority interests	(46)	55
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**35,239**	**(14,718)**

Statement of changes in shareholders' equity at 30.06.2014

	Balance at 31.12.2013	Changes in opening balances	Balance at 1.01.2014	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2014	Minority interests at 30.06.2014
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30.06.2014		
Share capital:															
a) ordinary shares	60,940		60,940											60,840	100
b) other shares	6,865		6,865											6,865	
Share premium reserve	16,145		16,145											16,145	
Reserves:															
a) from profits	700,515		700,515	(7,984)		1,203								693,723	11
b) other	10,170		10,170									254		10,424	
Valuation reserves:	29,200		29,200										4,136	33,336	
Equity instruments															
Treasury shares															
Net profit (loss) for the period	(4,898)		(4,898)	7,984	(3,086)								31,149	31,103	46
Group shareholders' equity	**818,716**		**818,716**		**(2,984)**	**1,211**						**254**	**35,239**	**852,436**	
Minority interests	**221**		**221**		**(102)**	**(8)**							**46**		**157**

Statement of changes in shareholders' equity at 30.06.2013

				Allocation of prior year results		Changes during the year									
	Balance at 31.12.2012	Changes in opening balances	Balance at 1.01.2013	Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30.06.2013	Group shareholders' equity at 30.06.2013	Minority interests at 30.06.2013
Share capital:															
a) ordinary shares	65,078		65,078				(4,138)							60,840	100
b) other shares	6,865		6,865											6,865	
Share premium reserve	16,355		16,355				(210)							16,145	
Reserves:															
a) from profits	680,926		680,926	16,220		(2,735)	(2,355)							692,037	19
b) other	9,640		9,640									254		9,894	
Valuation reserves:	28,271		28,271										(10,392)	17,879	
Equity instruments															
Treasury shares															
Net profit (loss) for the period	21,056		21,056	(16,220)	(4,836)								(4,381)	(4,424)	43
Group shareholders' equity	**821,177**		**821,177**		**(4,836)**	**(2,641)**						**254**	**(14,718)**	**799,236**	
Minority interests	**7,014**		**7,014**			**(94)**	**(6,703)**						**(55)**		**162**

Cash flow statement

A. OPERATING ACTIVITIES	*Amount*	
	30.06.2014	**30.06.2013**
1. Cash generated from operations	**101,186**	**82,697**
- interest received (+)	157,085	156,530
- interest paid (-)	(54,159)	(64,155)
- dividends and similar income (+)	88	117
- net commissions (+/-)	56,657	54,024
- payroll costs (-)	(64,180)	(79,775)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(41,044)	(37,679)
- other revenues (+)	64,307	57,735
- taxation (-)	(17,568)	(4,100)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(679,113)**	**(314,544)**
- financial assets held for trading	1,801	1,969
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	165,406	(358,684)
- loans to customers	(591,671)	49,216
- due from banks: on demand	(163,292)	23,481
- due from banks: other receivables	(73,979)	(3,883)
- other assets	(17,378)	(26,643)
3. Cash generated (absorbed) by financial liabilities	**445,152**	**203,278**
- due to banks: on demand	40,691	8,070
- due to banks: other debts	(7,488)	(12,778)
- due to customers	402,727	222,517
- debt securities in issue	(152,452)	8,736
- financial liabilities held for trading	(164)	(257)
- financial liabilities designated at fair value through profit and loss	(10,505)	(60)
- other liabilities	172,343	(22,950)
Net cash generated/absorbed by operating activities (A)	**(132,775)**	**(28,569)**
B. INVESTING ACTIVITIES		
1. Cash generated by	**181,608**	**9,993**
- sale of equity investments		7,718
- dividends collected on equity investments		
- sale/redemption of financial assets held to maturity	181,568	157
- sale of property, plant and equipment	40	2,118
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(42,147)**	**(31,366)**
- purchase of equity investments	(34,986)	(49)
- purchase of financial assets held to maturity		(30,635)
- purchase of property, plant and equipment	(6,407)	(425)
- purchase of intangible assets	(754)	(257)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**139,461**	**(21,373)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(3,086)	(5,691)
Net cash generated/absorbed by financing activities (C)	**(3,086)**	**(5,691)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**3,600**	**(55,633)**

Reconciliation

Captions	2014	2013
Cash and cash equivalents at beginning of period	29,848	81,248
Net increase (decrease) in cash and cash equivalents	3,600	(55,633)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of period	33,448	25,615

Consolidated income statement – quarter by quarter

	Captions	2nd quarter 2014	1st quarter 2014	2nd quarter 2013	1st quarter 2013
10	Interest and similar income	78,464	78,292	78,967	77,673
20	Interest and similar expense	(27,505)	(27,115)	(31,806)	(32,452)
30	**Net interest income**	**50,959**	**51,177**	**47,161**	**45,221**
40	Commission income	33,699	30,391	33,820	28,018
50	Commission expense	(4,465)	(3,860)	(4,529)	(4,118)
60	**Net commission income**	**29,234**	**26,531**	**29,291**	**23,900**
70	Dividends and similar income	88		117	
80	Net trading income	574	611	529	405
90	Net hedging gains (losses)	(9)	(1,073)	(494)	343
100	Gains (losses) on disposal or repurchase of:	14,569	28,336	16,105	11,867
	a) loans	*(448)*			
	b) financial assets available for sale	*15,818*	*16,426*	*16,236*	*11,922*
	c) financial assets held to maturity		*12,428*		
	d) financial liabilities	*(801)*	*(518)*	*(131)*	*(55)*
110	Net results on financial assets and liabilities designated at fair value	11	(378)	(787)	232
120	**Net interest and other banking income**	**95,426**	**105,204**	**91,922**	**81,968**
130	Net impairment adjustments to:	(33,940)	(21,452)	(45,944)	(24,041)
	a) loans	*(34,756)*	*(21,503)*	*(45,942)*	*(23,922)*
	b) financial assets available for sale	*(39)*	*254*		
	d) other financial assets	855	(203)	(2)	(119)
140	**Net profit from financial activities**	**61,486**	**83,752**	**45,978**	**57,927**
150	Net premiums				
160	Net other insurance income/expense				
170	**Net profit from financial and insurance activities**	**61,486**	**83,752**	**45,978**	**57,927**
180	Administrative costs:	(58,464)	(55,899)	(72,652)	(55,216)
	a) payroll costs	*(34,710)*	*(33,611)*	*(49,736)*	*(34,435)*
	b) other administrative costs	*(23,754)*	*(22,288)*	*(22,916)*	*(20,781)*
190	Net provisions for risks and charges	990	(531)	(2,560)	(645)
200	Net adjustments to property, plant and equipment	(1,477)	(1,452)	(1,383)	(1,510)
210	Net adjustments to intangible assets	(263)	(257)	(234)	(224)
220	Other operating charges/income	11,116	9,159	10,617	7,457
230	**Operating costs**	**(48,098)**	**(48,980)**	**(66,212)**	**(50,138)**
240	Profit (loss) from equity investments	383	174	12,164	
260	Adjustments to goodwill				
280	**Profit (loss) from current operations before tax**	**13,771**	**34,946**	**(8,070)**	**7,789**
290	Income taxes on current operations	(4,644)	(12,924)	1,873	(5,973)
300	**Profit (loss) from current operations after tax**	**9,127**	**22,022**	**(6,197)**	**1,816**
310	Profit (loss) after tax on non-current assets held for sale			(1,532)	1,532
320	**Net profit (loss) for the period**	**9,127**	**22,022**	**(7,729)**	**3,348**
330	Net profit (loss) pertaining to minority interests	(21)	(25)	296	(339)
340	**Parent Company net profit (loss)**	**9,106**	**21,997**	**(7,433)**	**3,009**

BASIS OF PREPARATION AND ACCOUNTING POLICIES

ACCOUNTING POLICIES

GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

These Interim condensed consolidated financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002 and in particular with IAS 34 – *Interim financial statements*, and the enabling regulations for art. 9 of Legislative Decree 38/2005.

Accounting standards that will become applicable as from 1 January 2014 are IFRS 10, IFRS 11 and IFRS 12, with respect to matters concerning control and consolidation, as well as a number of amendments to IAS 27 and 28, as endorsed by Commission Regulation (EU) no. 1254/2012 and with subsequent amendments endorsed by Commission Regulations (EU) nos. 313 and 1174 of 2013.

The main changed introduces by the new accounting standard IFRS 10 – *Consolidated Financial statements* are the following:

- Introduction of a single consolidation model for all entities based on control;
- A more robust definition of control compared to the past, based on three elements: (a) power over an investee; (b) exposure, or rights, to variable returns from its involvement with the investee; (c) ability to use its power over the investee to affect the amount of the investor's returns;
- Introduction of practical guidance that aims to help in assessing control in complex situations, including 'de facto' control, potential voting rights and whether or not a decision maker is acting as a principal or an agent.

In general terms, the application of IFRS 10 requires a significant degree of judgement with regard to a certain number of aspects. The adoption of this new standard has had no effect on the Group's scope of consolidation (see the paragraph below on "Scope of consolidation and consolidation procedures").

Without prejudice to the criteria for the identification of joint control, IFRS 11 - *Joint arrangements* provides criteria for the accounting treatment of joint arrangements based on rights and obligations deriving from the arrangements, rather than on the legal form thereof, distinguishing between joint venture and joint operation.

Lastly, IFRS 12 – *Disclosure of interests in other entities*, is a new and complete standard on additional disclosures to be provided in consolidated financial statements for all types of equity investments, including subsidiaries, joint arrangements, associates, special purpose entities and other non consolidated vehicles.

Also applicable as from 1 January 2014 are amendments to IAS 39 – *Financial Instruments: Recognition and Measurement* as endorsed by Commission Regulation (EU) no. 1375/2013 that make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. The update arises from the introduction of the European Market Infrastructure Regulation (EMIR), which aims to impose central clearing for certain classes of over-the-counter derivatives. Also applicable are amendments to IAS 32 – *Financial Instruments* introduced by Commission Regulation (EU) no. 1256/2012 concerning the offsetting of financial assets and financial liabilities.

The main accounting policies adopted in preparing the interim condensed consolidated financial statements are set out below. They are consistent with those used for the preparation of the prior year consolidated financial statements.

Section 2 - Basis of preparation

The interim condensed consolidated financial statements comprise the Balance sheet, Income statement, Statement of comprehensive income, Statement of changes in shareholders' equity, Cash flow statement, the Income statement quarter by quarter and the Explanatory notes, which provide the information on fair value, the details of the main balance sheet and income statement captions, information on risks and hedging policies, information on shareholders' equity, information on transactions with related parties, information on equity-based payments and segment information. The interim condensed consolidated financial statements are also accompanied by the interim report on operations.

For the preparation of the financial statements and the content of the explanatory notes, reference was made to the Bank of Italy Circular 262 of 22 December 2005 as subsequently updated on 21 January 2014. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The interim condensed consolidated financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the period of the Banco Desio Group.

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence.

Even with the voluntary liquidation of two foreign subsidiaries (which did not result in the loss of control thereover), the going-concern assumption is still undoubtedly valid for the Banco Desio Group as a whole. Accordingly, the Group's accounting principles have also been applied to the companies in voluntary liquidation (in line with the going-concern assumption) for the consolidated financial reporting process.

In particular, the financial statements used for the preparation of the interim condensed consolidated financial statements are those which have been prepared by the subsidiaries for the period ended 30 June 2014, adjusted, where necessary, to comply with the relevant IAS/IFRS adopted by the Parent Company.

The amounts in the financial statements and the figures reported in the explanatory notes are expressed in thousands of Euro – unless otherwise indicated.

Section 3 - Scope of consolidation and methodology

1. Investments in subsidiaries and companies under joint control (consolidated on a proportional basis)

Name	Head office	Type of relationship (1)	Nature of holding	
			Parent company	% held
A. Companies				
A.1 Companies consolidated line-by-line				
Banco Desio Lazio S.p.A.	Rome	1	Banco Desio	100.000
Fides S.p.A.	Rome	1	Banco Desio Lazio	100.000
Rovere S.A.	Luxembourg	1	Banco Desio	70.000
		1	Banco Desio Lazio	10.000
Brianfid-Lux S.A. in liquidation	Luxembourg	1	Banco Desio	100.000
Credito Privato Commerciale S.A. in liquidation	Lugano	1	Banco Desio	100.000

Key

(1) Type of relationship: 1 = majority of votes at the ordinary shareholders' meeting

As at the reference date of this consolidated interim financial report, Banco Desio holds an equity investment with voting rights in Banca Popolare di Spoleto S.p.A. in Extraordinary Administration of 72.16% (subsequently reduced to 72.13% on 2 July 2014), the acquisition of which (during the course of the period) did not modify the scope of consolidation of the Group, given that the conditions have not arisen for the assumption of control of the entity as defined by the new relevant accounting standard IFRS 10 – Consolidated financial statements; in fact, even if Banco Desio had acquired the right to variable returns from its investment, at the reporting date it did not yet have “power over the entity” and the possibility to exercise the governance thereof, being a condition that subsequently fell into place as from 1 August 2014 with the appointment of the new administrative and control bodies (reconstituted during the course of the Extraordinary and Ordinary Shareholders' Meeting of Banca Popolare di Spoleto S.p.A held on 30 July 2014) due to the closure of the extraordinary administration proceedings that took place on 31 July with the company being handed over by the Commissioners to the corporate bodies pursuant to art. 75, paragraph 3 of the Consolidated Banking Act.

2. Other information

The basis of consolidation, in compliance with IFRS 10, is as follows:

- *subsidiaries*: assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis.

  Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;
- *associates*: investments in associates are accounted for using the equity method.

Section 4 - Subsequent events

Please refer to the explanations in the interim consolidated financial statements.

Section 5 - Other aspects

Use of estimates and assumptions in preparing the consolidated financial statements.

The preparation of the condensed consolidated financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.

The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.

The main areas in which the use of subjective estimates and assessments is applied are:

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets (*Level 2 and 3*);
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets.

The description of the accounting policies applied to balance sheet captions provides more detailed information on the assumptions and subjective assessments used in preparing the interim condensed consolidated financial statements.

Domestic tax group election

Banco di Desio e della Brianza and the Italian companies of the Group adopted the so-called "domestic tax group", governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Audit

These interim condensed consolidated financial statements have been subjected to a limited audit by Deloitte & Touche S.p.A., pursuant to the resolution of the Shareholders' Meeting of 16 April 2012.

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS

endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.
For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

Financial assets held for trading

Recognition

The initial recognition of financial assets held for trading takes place at the settlement date for debt securities and equities and at the execution date for derivatives.
Financial assets held for trading are designated on initial recognition as assets at fair value through profit and loss, corresponding to the price paid, without taking account of transaction costs or income that are recognised directly in the income statement.

Classification

"Financial assets held for trading" include debt securities, equities, positive derivatives held for trading and other assets that, according to the initial designation, are classified as financial instruments held for trading in the short term. Since classification derives from initial designation, subsequent transfers to other categories are generally not allowed for this category of financial assets, except as in rare circumstances specified in IAS 39. The transfer value is represented by the fair value at the time of reclassification.

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date (*fair value Level 1*).
Italian and foreign government bonds and Italian and foreign bonds not traded in an active market are measured by the use of valuation techniques (*fair value Level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).
For equities not traded in an active market, the fair value measurement is determined using valuation techniques (*fair value Level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).
Derivative instruments that are not traded in active markets are measured using valuation techniques (*fair value Level 2 or 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Assets held for trading are derecognised when they are sold or cancelled.

Recognition of items affecting the income statement

Subsequent to initial recognition, financial assets held for trading are measured at fair value with value changes recognised in profit or loss.

Financial assets available for sale

Recognition

The initial recognition of financial assets available for sale takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the instrument concerned.
If, for those cases permitted by the applicable accounting standards, the recognition takes place upon a reclassification of financial assets held to maturity, the amount recognised is represented by the fair value at the time of transfer.

Classification

"Financial assets available for sale" include financial assets - derivatives excluded - not classified as Loans, Assets held for trading or as Assets held to maturity.
This caption thus includes, in addition to bonds that are not held for trading and which are not classified as Assets held to maturity, equity interests not held for trading and which do not qualify as controlling interests or as a placement as well as mutual fund units.
Financial assets can be transferred from "available for sale" to "held to maturity", but only in the following circumstances:

- change in the intention or ability to continue holding the asset,
- in rare cases where a reliable measurement of fair value is not available.

A transfer to "Loans and receivables" is only allowed in particular circumstances.

Measurement

Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.
For the purposes of determining fair value, the same criteria as for assets held for trading are applied.
For unquoted financial assets, inclusive of non-controlling interests, the fair value measurement is carried out using valuation techniques, that is, when a reliable determination of fair value is not possible, the assets in question are measured at cost (*Level 3*).
UCITS units that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*fair value Level 1*).
UCITS units that are not traded in an active market (particularly closed-end funds and hedge funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidability of the units (*Level 3*).
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39, paragraph 61, for debt securities, listed and unlisted equities and for UCITS units traded in an active market, "significant" (higher than 25%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators. For UCITS units not traded in an active market and equity investments in investees other than subsidiaries or associates, "significant" (higher than 30%) or "extended" (more than 60 months) write-downs are considered to be objective impairment indicators.
In accordance with internal policy, pre-established thresholds being exceeded is considered to be impairment, with the consequent recognition in the income statement of the accumulated impairment loss incurred since the date of initial recognition.
The amount of the impairment is the difference between the asset's book value and its recoverable amount.

Derecognition

Financial assets available for sale are derecognised when the asset is sold, cancelled or transferred to another category.

Recognition of items affecting the income statement

The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.
On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.
If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.

Financial assets held to maturity

Recognition

The initial recognition of financial assets held to maturity takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the purchase.

Classification

"Financial assets held to maturity" comprise debt securities that have fixed or determinable contract payments and a fixed maturity, for which there is the intention and ability to hold them to maturity.
The category of financial assets held to maturity was created on the basis of specific resolutions passed by the corporate bodies, who also approve any subsequent movements on it, in compliance with IAS 39.
For those cases permitted by the applicable accounting standards, transfers are only permitted to Financial assets available for sale. The inclusion of financial assets in this category is no longer permitted in the current period and the next two years in the event of sales or transfers of a not insignificant amount, excluding investments that are close to maturity and isolated events that are beyond the Bank's control.
If the conditions that ban the use of this category come about, the assets concerned have to be reclassified to financial assets available for sale (under the so-called "tainting provision).

Measurement and recognition of items affecting the income statement

Measurements subsequent to initial recognition are recorded at amortised cost using the effective interest rate method with the contra-entry going to the income statement.
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated. If they do exist, the impairment losses are recognised in the income statement.
If the reasons for making the impairment adjustment cease to apply, the related asset is written back and the amount of the write-back is recognised in the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had if no adjustments had been made previously.
Italian Government securities, which are traded in an active market and for which their fair value is reported in the explanatory notes solely for disclosure purposes, are measured at the closing price observable in the principal

market on the assessment date or, in the absence thereof, in the most advantageous market (*fair value Level 1*). Italian and foreign government bonds and Italian and foreign bonds are measured by the use of valuation techniques with reference to a valuation price from an external information provider (*fair value Level 2 and 3*, based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial assets held to maturity are derecognised when the asset is sold, cancelled or transferred to another category.

Loans and receivables

Recognition

Loans and receivables are recognised at the contract date, which is usually equal to the date the loan is granted.
If the two dates do not coincide, upon the execution of the contract, a commitment is assumed to provide funds that terminates on the date the loan is granted. Loans and receivables are recognised at fair value, which normally equates to the amount granted, including any costs or income directly attributable to the loan and which are determinable at the outset of the transaction.
If the recognition in this category takes place as a result of a reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset at the date of reclassification represents the new amortised cost of the asset.

Classification

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.
They also include finance lease receivables and repurchase agreements with obligation to resale.
Transfers from "Financial assets available for sale" and "Financial assets held for trading" are only allowed in particular circumstances, as specified in IAS 39.

Measurement

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.
The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.
The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.
Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.
The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.
Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.

Non-performing loans include the various categories of impaired loans established by the Bank of Italy: doubtful loans, watchlist loans, restructured loans and past due or overrun loans.
The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.
Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.
Specific analyses are carried out for exposures of a significant amount.
Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The evaluation is analytical, and takes account of the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees.
Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.
The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.
The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.
Fair value is based on future cash flows according to the contract, using a risk-free discount rate and taking into consideration the credit risk in terms of PD and LGD detected by the CRS model (*Level 3*).

Derecognition

Loans are only derecognised if their sale involved the transfer of essentially all the risks and benefits associated with the loan. Conversely, if a significant part of the risks and benefits relating to loans that have been sold are retained, then they continue to be reported as assets in the balance sheet, even if formally ownership of the loans has been transferred.
Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans are reported in the balance sheet to the extent of the residual involvement, as measured by the exposure to changes in the value of the loans sold and to changes in their cash flows.
Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

Recognition of items affecting the income statement

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.
Interest on arrears is only recorded in the income statement when collected.
The interest that accrues over time as an effect of discounting impaired loans is recognised in the income statement under write-backs.
The effects of analytical and general assessments are recognised in the income statement.

The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.

Hedging transactions

Recognition

Upon initial recognition of derivatives, inclusive of hedging instruments, they are measured at fair value.

The recognition of hedging transactions assumes:

- The involvement of external counterparties;
- a specific designation and identification of financial hedging and hedged instruments used for the transaction;
- definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
- passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
- preparation of formal documentation of the hedging relationship.

Classification

Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.
The type of hedge used is the fair value hedge: the objective is to hedge the risk of changes in the fair value of the hedged instrument.

Measurement and recognition of items affecting the income statement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).
The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.
Such offsetting is booked through the recognition in the income statement under item 90 "Net hedging gains (losses)" of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.
A hedging transaction is defined as effective if the changes in fair value (or cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.
Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.
If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

Derecognition

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.

If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

Equity investments

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs.

Classification

This item includes investments in associates, as defined in IAS 28. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

Measurement

For measurement subsequent to initial recognition the equity method is applied, whereby the initial carrying value is adjusted to reflect the share of the associate's equity pertaining to the Parent Company.
At each balance sheet date, tests are carried out to see if there is objective evidence that the investment has suffered an impairment loss.
Impairment occurs when the carrying amount of the asset exceeds its recoverable value, this being the greater of the net selling price (i.e. the amount obtainable from the sale of the asset in a hypothetical transaction between independent parties, net of disposal costs) and its value in use (i.e. the present value of the cash flows expected to be derived from continuing use and disposal of the asset at the end of its useful life).
On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.
As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).
Any impairment write-downs are charged to the income statement.
If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related asset is written back and the amount of the write-back is recognised in the income statement.

Derecognition

Equity investments are derecognised when the contractual rights on cash flows from financial assets expire or when they are sold, substantially transferring all the risks and benefits of ownership.

Recognition of items affecting the income statement

Dividends are recognised when the right to collect them is established. Gains/losses on disposal are determined based on the difference between the carrying amount of the investment measured at weighted average cost and the purchase price, net of directly attributable transaction costs.

Property, plant and equipment

Recognition

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.

On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.

Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.

In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

Classification

Property, plant and equipment include land, buildings, equipment, furniture and fittings and other office equipment.

These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses.

Property, plant and equipment are systematically depreciated, on a straight-line basis at rates that reflect the residual useful life of the asset in question. Exceptions are made for land and works of art, which are not subject to depreciation because of the uncertainty of their useful life, and in view of the fact that normally their value is unlikely to fall over time. Extraordinary maintenance costs are capitalised and depreciated over the residual useful life of the assets to which they relate.

Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.

If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. The fair value is estimated through the use of property market information sources, appropriately adjusted based on the specifics of the assets and as advised by independent external experts (*Level 3*).

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

Depreciation, amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to property, plant and equipment

Intangible assets

Recognition

Goodwill is the positive difference between the purchase cost and the fair value of assets and liabilities acquired in business combinations. It is booked to intangible assets when it is actually representative of future economic benefits generated by the assets acquired.
Other intangible assets are stated at cost and are only recognised if they meet the requirements of independent identifiability and separation from goodwill, probable realisation of future economic benefits and reliable measurability of cost.

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs.
Leasehold improvements are booked to other assets.

Measurement

Intangible assets are recognised in the balance sheet at purchase cost, including ancillary charges, less the amount of accumulated amortisation and impairment losses, if any.
Amortisation is calculated on a straight-line basis at rates that reflect the residual useful life of the asset in question.
Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose. The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.
On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.

As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).
As recommended by the Italian Valuation Standard Board, in the event that Banco Desio's market capitalisation (ordinary shares and savings shares) has remained below its consolidated shareholders' equity over the previous six months, a level II impairment must also be performed, with the sole objective of verifying whether there has been any impairment of the legal entity, Banco Desio Group.

Any impairment write-downs are charged to the income statement, with no possibility of a subsequent write-back.

Compensation for abandonment of leasehold premises is amortised at rates based on the duration of the lease contract (renewal included).

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from them.

Recognition of items affecting the income statement

Amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to intangible assets.
Adjustments to leasehold improvements are recognised in the income statement under other operating charges.

Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a consistent manner with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.
Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets".
Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".
In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "Current tax assets".
If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).
Lastly, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.

Provision for termination indemnities

Measurement

The provision for termination indemnities is recorded in the financial statements using actuarial techniques.
The evaluation is carried out by independent external actuaries according to the accrued benefit method, using the Projected Unit Credit Method. This amount represents the present value, calculated from a demographic/financial point of view, of benefits payable to employees (termination indemnities) for the period of service already accrued, which is obtained by re-proportioning the total present value of the obligation to the period of service already rendered at the valuation date, taking into account the likelihood of resignations and requests for advances.
To determine the discount rate, reference is made to an index which represents the yield on a basket of high quality corporate bonds. In line with prevalent practice, an “AA” class index was selected.

Recognition of items affecting the income statement

The provision for termination indemnities arising from the actuarial valuation, as allowed by IAS 19, is recorded as a contra-entry to the valuation reserves for the component of actuarial gains (losses) and in the income statement under provisions for other components such as accrued interest due to the passage of time (discounting).

Provisions for risks and charges - Other provisions

Classification

Provisions for risks and charges include provisions made to cover ongoing obligations that are related to work relationship or disputes, also tax disputes, that are the result of past events, for the settlement of which it is probable that there will be an outflow of resources that can be reliably estimated.
Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date.

Measurement

In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.
The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities.

Recognition of items affecting the income statement

Provisions are charged to the income statement. An exception is made for the amounts set aside for bonuses to employees, which are booked as a contra-entry to valuation reserves.
The effects arising from the passage of time for the discounting of future cash flows are recorded in the income statement under provisions.

Debts and debt securities in issue

Recognition

Recognition of these financial liabilities takes place on the date of the contract, which normally coincides with the receipt of the amounts collected or on issue of the debt securities. The first recognition is at fair value of the liability, usually equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual operation or issue.

Classification

This includes various forms of funding put in place by Group companies: amounts due to banks, amounts due to customers, bonds and certificates of deposit issued by the Bank, repurchase agreements with obligation to repurchase and other payables.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.
Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.

Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.
If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.
Securities issued are shown net of any repurchases.

Solely for disclosure purposes, the fair value is determined of debt and securities issued; for issued debt and certificates of deposit, the fair value substantially equates to book value, which represents a reasonable approximation thereof (*Level 3*).

For bonds issued by Group companies, the fair value is determined by using valuation models to estimate and discount future cash flows (*Level 2*).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.
The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.
The re-placement of own securities previously repurchased is considered as a new issue measured at the new sale value.

Financial liabilities held for trading

Recognition and classification

Liabilities held for trading are recorded at fair value.
The financial instruments included in this caption are recognised on the subscription date or on the date of issue at an amount equal to the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument concerned.
This caption includes, in particular, trading derivatives with a negative fair value.

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at fair value, booking the effects to the income statement.
Derivative instruments traded in active markets are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*Level 1*).
Derivative instruments that are not traded in active markets are priced by using valuation techniques (*Level 2 or Level* 3 - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

Recognition is at fair value, equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual issue.

Classification

This caption includes financial liabilities designated at fair value through profit and loss.

In particular, this caption refers to the application of the fair value option for financial liabilities subject to "natural hedging", designed to achieve a better balance of the effects of measuring financial assets and liabilities on the income statement.

Financial liabilities may be designated at fair value through the income statement in the following cases:

- elimination or reduction of valuation inconsistencies
- evaluation of instruments containing embedded derivatives
- evaluation of groups of financial assets or liabilities on the basis of a documented risk management or investment strategy.

This category comprises bonds issued with an embedded derivative or financial hedge.

Measurement and recognition of items affecting the income statement

These are recorded at fair value, with the effects charged to the income statement.

The fair value is determined through valuation techniques using observable elements in active markets (*Level 2*). The methodology consisted of discounting cash flows using a zero coupon curve based on elements available in the market and the application of a credit spread calculated as the difference between the Euro OIS (EONIA) curve and the yield curve for a basket of bonds issued by Italian banks with ratings comparable to those of Banco Desio, whereas a specific curve was used for subordinated bonds.

Derecognition

Financial liabilities measured at fair value are derecognised on disposal, expiration or termination.

Repurchases of own issues substantially lead to the termination of the part subject to repurchase. The re-placement of own securities previously repurchased is considered as a new issue at the sale value.

Currency transactions

Recognition

Currency transactions are recorded at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

Measurement

At each annual or interim balance sheet date, caption in foreign currency are valued as follows:

- monetary items: conversion at the exchange rate ruling at the balance sheet date;
- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;
- non-monetary items measured at fair value: conversion at the exchange rate ruling at the balance sheet date.

Recognition of items affecting the income statement

For monetary items, the effect of the measurements is recognised in the income statement.

For non-monetary items with recognition of gains and losses in the income statement, exchange differences are also recognised in the income statement; if gains and losses are recognised in shareholders' equity, any exchange differences are also booked to equity.

Other information

Valuation reserves

This caption includes valuation reserves of financial assets available for sale, derivative contracts to hedge cash flows, valuation reserves created under special laws in past years and reserves for the actuarial valuation of employee benefits under IAS 19. They also include the effects of the application of fair value as the deemed cost of property, plant and equipment upon first-time adoption of IAS/IFRS.

Recognition of costs and revenues

Revenues are recognised when they are earned or, in any case, when it is probable that benefits will be received and these benefits can be reliably measured. In particular:

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities;
- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (*level 1 and level 2*). If these values cannot easily be determined or have a reduced level of liquidity (*level 3*), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Expenses are recognised in the income statement in the periods when the related revenues are booked. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures.
Costs that cannot be associated with income are booked immediately to the income statement.

Finance leases

Assets leased to others under finance leases are shown as receivables, for an amount equal to the net investment of the lease. The recognition of financial income reflects a constant periodic rate of return.

INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The amendments to IAS 39 and IFRS 7 "Reclassification of financial assets" approved by the IASB in 2008 allow companies to reclassify certain financial assets out of "assets held for trading" and "assets available for sale" after initial recognition.

In particular, it is possible to reclassify:

- financial assets held for trading or available for sale that would have met the definition provided by the International Accounting Standards for the loan portfolio (if such assets were not classified as held for trading or available for sale at initial recognition) if the entity has the intention and ability to hold them for the foreseeable future or until maturity;
- financial assets held for trading that at the time they were recorded did not meet the definition of loans, but "only in rare circumstances".

There have been no portfolio transfers by Group companies in the period.

Information on fair value

Qualitative information

The accounting standard IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received for the sale of an asset or that would be paid to transfer a liability in a regular transaction between market participants (exit price). The definition of fair value provided by IFRS 13 makes it clear that fair value measurements are market based and not entity specific.

This standard introduced disclosure requirements about fair value measurements and the inputs used for the measurement of assets and liabilities that are measured at fair value on a recurring or non-recurring basis after initial financial statement recognition, as well as about the effect on comprehensive income of fair value measurements of instruments using effective unobservable inputs.

When a price is not detectable for the same asset or a liability, the fair value is estimated by applying a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

As required by IFRS 13 and for the purpose of the determination of the fair value of OTC derivatives, counterparty risk needs to be considered.

The fair value hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (*Level 1* inputs) and the lowest priority to unobservable inputs (*Level 3* inputs).

The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

Fair value measurement with use of Level 1 inputs

The fair value falls within *Level 1* if determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A price quoted in an active market provides the most reliable evidence of fair value and, when available, should be used without any adjustments.

An active market is a market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fundamental elements are the following:

- Identification of the *principal market* for the asset or liability or, in the absence of a principal market, the *most advantageous market* for the asset or liability;
- the ability of the entity to carry out a transaction in the asset or liability at the price of that market on the valuation date.

The principal market is the market with the greatest volume and level of activity for the asset or liability. In the absence thereof, the most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability.

Levels of fair value 2 and 3: valuation techniques and inputs used

The fair value of financial assets and liabilities is measured by using valuation techniques that take into account the characteristics of the financial instrument being measured.

For *Level 2* of the fair value hierarchy, the fair value is determined by using a valuation price from an external information provider or a price calculated using internal valuation techniques that use directly or indirectly observable inputs for the asset or liability and include:

- prices quoted for similar assets or liabilities in active markets;
- prices quoted for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities;
    - credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

For *Level 3* of the fair value hierarchy, unobservable inputs are used for the asset or liability. Use of these inputs, including those from internal sources, is allowed if there is no observable market information to help make estimates; they should reflect the assumptions that market participants would make in determining the price.

For *Level 3* of the fair value hierarchy and with specific reference to OTC derivatives in foreign currencies, the input relating to credit spread for non-institutional customers is provided by an internal rating model which categorises each counterparty in risk classes with the same probability of insolvency.

The fair value of non-financial assets and liabilities (receivables and payables) is determined using the DCF (discounted cash flow) method; the currently used module permits consistent integration in fair value measurement of market factors, financial characteristics of the transaction and credit risk components.

Regarding the fair value of assets and liabilities provided in the explanatory notes solely for disclosure purposes, the following should be noted.

For the purpose of the determination of fair value:

- medium to long term performing loans are measured by discounting future cash flows using a risk-free discount rate that is weighted based on credit risk; non-performing loans are measured at book value, which represents a reasonable approximation of their fair value (*Level 3*);
- debt and certificates of deposit issued by the Bank are measured at book value, which represents a reasonable approximation of their fair value (*Level 3*);
- bonds issued by the Bank are measured by discounting future cash flows and the application of a credit spread *(Level 2*);
- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (*Level 3*).

Process and sensitivity of valuations

Valuation techniques and inputs selected are applied consistently, except where events take place that require them to be replaced or modified, such as: new markets develop, new information becomes available, information previously used is no longer available or valuation techniques improve.

The measurement process for financial instruments consists of the phases summarised below:

– for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;

– the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;

– the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuation.

For financial instruments that are measured at fair value on a recurring basis and which are categorised as Level 3, no sensitivity analysis is provided due to their nature and the immateriality of the amounts involved.

Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation.

If the market for assets and liabilities no longer qualifies as active, then the valuation technique and inputs are changed and the assets and liabilities are categorised within a lower level of the fair value hierarchy.

A valuation technique is used consistently from period to period, except where circumstances arise that necessitate the use of a more appropriate technique, such as the development of new markets, the availability of new information or a change in market conditions. This could lead to assets and liabilities measured at different dates being categorised in a different fair value hierarchy.

The policy for the determination of the levels is applied on a monthly basis.

Other information

There is nothing to add to the information that has been previously disclosed.

Quantitative information

Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

	30.06.2014			31.12.2013		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	74	1,661	350	596	1,705	497
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,168,104	87,796	12,726	1,287,724	127,913	7,782
4. Hedging derivatives		3,909			5,052	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,168,178**	**93,366**	**13,076**	**1,288,320**	**134,670**	**8,279**
1. Financial liabilities held for trading			327			480
2. Financial liabilities designated at fair value through profit and loss		28,618			38,617	
3. Hedging derivatives					2,894	
Total		**28,618**	**327**		**41,511**	**480**

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (1.03% compared with 0.58% at end-2013).

These investments, which are substantially classified as financial assets available for sale, are represented entirely by minority interests.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**497**		**7,782**			
2. Increases	**350**		**6,672**			
2.1. Purchases						
2.2. Profits posted to:						
2.2.1. Income statement	350		125			
Capital gains	350					
2.2.2. Shareholders' equity			75			
2.3. Transfers from other levels			6,472			
2.4. Other increases						
3. Decreases	**497**		**1,642**			
3.1. Sales			297			
3.2. Redemptions						
3.3. Losses posted to:						
3.3.1. Income statement	497					
of which: capital losses	497					
3.3.2. Shareholders' equity			1,431			
3.4. Transfers to other levels						
3.5. Other decreases						
4. Closing balance	**350**		**12,726**			

A.4.5.3 Annual changes in financial liabilities at fair value (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance	**480**		
2. Increases	327		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	327		
- of which: capital losses	*327*		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	**480**		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	480		
- of which: capital gains	*480*		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**327**		

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

Financial assets/liabilities designated at fair value	30.06.2014				31.12.2013			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity					181,568	181,066	10,434	
2. Due from banks	513,119			513,119	275,848			275,848
3. Loans to customers	7,485,504			7,623,799	6,955,429			7,377,054
4. Investment property	1,103			972	1,111			972
5. Non-current assets and disposal groups held for sale								
Total	**7,999,726**			**8,137,890**	**7,413,956**	**181,066**	**10,434**	**7.653874**
1. Due to banks	471,229			471,229	438,026			438,026
2. Due to customers	5,892,509			5,892,509	5,489,782			5,489,665
3. Debt securities in issue	2,086,249		1,958,883	157,244	2,239,092		2,001,090	237,986
4. Liabilities associated with assets held for sale								
Total	**8,449,987**		**1,958,883**	**6,520,982**	**8,166,900**		**2,001,090**	**6,165,677**

INFORMATION ON "DAY ONE PROFIT/LOSS"

IAS 39 requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value. If a difference arises (so-called “day one profit/loss”) between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

In relation to the Group's operations and on the basis of the internal valuation methodologies currently in use, no such differences have been recognised, since the fair value of financial instruments upon initial recognition coincides with the transaction price.

Main balance sheet

and income statement captions

ASSETS

Cash and cash equivalents

1.1 Cash and cash equivalents: breakdown

	30.06.2014	31.12.2013
a) Cash	33,448	29,848
b) Demand deposits with central banks		
Total	**33,448**	**29,848**

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2014			31.12.2013		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	28			563		
1.1 Structured securities						
1.2 Other debt securities	*28*			*563*		
2. Equity instruments	6					
3. UCITS units						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**34**			**563**		
B. Derivatives:						
1. Financial derivatives:	40	1,376	350	33	1,541	497
1.1 for trading	*40*		*350*	*33*		*497*
1.2 connected with the fair value ..		*1,376*			*1,541*	
1.3 other						
2. Credit derivatives		285			164	
2.1 for trading		*285*			*164*	
2.2 connected with the fair value ..						
2.3 other						
Total B	**40**	**1,661**	**350**	**33**	**1,705**	**497**
Total (A+B)	**74**	**1,661**	**350**	**596**	**1,705**	**497**

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) derivatives held for trading and those linked to the fair value option.

The derivatives connected with the fair value option consist of derivatives operationally linked to bonds issues by the Bank.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section on Information on fair value.

2.2 Financial assets held for trading: breakdown by borrower/issuer

Captions/Amounts	30.06.2014	31.12.2013
A. Cash assets		
1. Debt securities	**28**	**563**
a) Government and central banks	*28*	*563*
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity instruments	**6**	
a) Banks	6	
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. UCITS units		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**34**	**563**
B. Derivatives		
a) Banks	1,955	2,041
- Fair value	*1,955*	*2,041*
b) Customers	96	194
- Fair value	*96*	*194*
Total B	**2,051**	**2,235**
Total (A+B)	**2,085**	**2,798**

Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	30.06.2014			31.12.2013		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,148,139	87,796		1,261,819	127,913	170
1.1 Structured securities		*1,970*			*1,950*	
1.2 Other debt securities	*1,148,139*	*85,826*		*1,261,819*	*125,963*	*170*
2. Equity instruments	1		7,686			7,611
2.1 Valued at fair value			*6,109*			*6,034*
2.2 Valued at cost	*1*		*1,577*			*1,577*
3. UCITS units	19,964		5,040	25,906		
4. Loans						
Total	**1,168,104**	**87,796**	**12,726**	**1,287,725**	**127,913**	**7,781**

Caption "Financial assets available for sale" comprises:

- the bond portfolio and UCITS units not held for trading;
- portions of equity investments in companies with voting rights of less than 20% of the share capital of companies that are not strategic investments for the Bank.

Debt securities include securities associated with repurchase agreements.

4.2 Financial assets available for sale: breakdown by borrower/issuer

Captions/Amounts	30.06.2014	31.12.2013
1. Debt securities	**1,235,935**	**1,389,902**
a) Government and central banks	1,148,139	1,311,705
b) Other public entities		
c) Banks	76,815	65,947
d) Other issuers	10,981	12,250
2. Equity instruments	**7,687**	**7,611**
a) Banks		
b) Other issuers:	7,687	7,611
- insurance companies		
- financial companies	*1,534*	*1,534*
- non-financial companies	*6,152*	*6,077*
- other	*1*	
3. UCITS units	**25,004**	**25,906**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,268,626**	**1,423,419**

Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

Type of transaction/Amounts	30.06.2014				31.12.2013			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities					181,568	181,066	10,434	
- structured								
- other					*181,568*	*181,066*	*10,434*	
2. Loans								

5.2. Financial assets held to maturity: breakdown by borrower/issuer

Type of transaction/Amounts	30.06.2014	31.12.2013
1. Debt securities		**181,568**
a) Government and central banks		171,446
b) Other public entities		
c) Banks		10,122
d) Other issuers		
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total		**181,568**
Total FV		**191,500**

Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	30.06.2014				31.12.2013			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**126,151**			**126,151**	**92,096**			**92,096**
1. Restricted deposits								
2. Reserve requirement	126,151				92,096			
3. Repurchase agreements								
4. Other								
B. Due from banks	**386,968**			**386,968**	**183,752**			**183,752**
1. Loans	361,952			361,952	158,733			158,733
1.1 Current accounts and demand deposits	277,243				113,951			
1.2 Restricted deposits	84,505				44,735			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	84,505				44,735			
1.3. Other loans:	204				47			
- Repurchase agreements								
- Finance leases								
- Other	204				47			
2. Debt securities	25,016			25,016	25,019			25,019
2.1 Structured securities	25,016				25,019			
2.2 Other debt securities								
Total	**513,119**			**513,119**	**275,848**			**275,848**

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. For the purpose of maintaining the average level of the reserve in line with the requirement, the amount thereof may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank.

At 30 June, Banco Desio Brianza's commitment to maintain the reserve requirement, inclusive of the commitment on behalf of the subsidiary Banco Desio Lazio, amounts to Euro 59.5 million (Euro 56.9 million at the end of 2013).

"Due from banks – Loans" include Euro 179,749 thousand due from Banca Popolare Spoleto that was granted under the terms of the investment agreement, details of which have previously been disclosed.

Amounts due from banks do not include loans and receivables classified as non-performing loans.

Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	30.06.2014						31.12.2013					
	Book value			Fair value			Book value			Fair value		
	Performing loans	Non-performing loans		L1	L2	L3	Performing loans	Non-performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	7,013,730		471,774			7,623,799	6,496,466		458,963			7,377,054
1. Current accounts	1,406,125		135,013				1,369,479		137,723			
2. Repurchase agreements	494,773						117,960					
3. Mortgage loans	3,361,480		293,464				3,361,423		282,507			
4. Credit cards, personal loans and assignments of one-fifth of salary	471,100		5,925				431,121		5,389			
5. Finance leases	439,137		32,552				464,042		27,758			
6. Factoring	19,771		393				17,698		478			
7. Other loans	821,343		4,427				734,743		5,108			
Debt securities												
8. Structured securities												
9. Other debt securities												
Total	**7,013,730**		**471,774**			**7,623,799**	**6,496,466**		**458,963**			**7,377,054**

Gross loans amount to Euro 7,796,296 thousand (Euro 7,225,868 thousand at the prior year end), while total writedowns amount to Euro 310,792 thousand (Euro 270,439 thousand in December 2013).

"Repurchase agreements" are exclusively for investing surplus liquidity with institutional counterparties.

As regards non-performing loans, additional details are provided in the section entitled "Information on risks and related hedging policy" to supplement the information already provided in the interim report on operations.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	30.06.2014			31.12.2013		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities						
a) Governments						
b) Other public entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:	**7,013,730**		**471,774**	**6,496,466**		**458,963**
a) Governments						
b) Other public entities	5,415					
c) Other parties	7,008,315		471,774	6,496,466		458,963
- non-financial companies	*4,333,015*		*348,651*	*4,222,128*		*331,103*
- financial companies	*589,939*		*1,385*	*203,350*		*1,265*
- insurance companies	*3,141*			*27,602*		
- other	*2,082,220*		*121,738*	*2,043,386*		*126,595*
Total	**7,013,730**		**471,774**	**6,496,466**		**458,963**

Of the increase in the balance of "Other parties: financial companies", Euro 369,876 thousand is attributable to a higher level of repurchase agreements with Cassa di Compensazione e Garanzia.

Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	30.06.2014				30.06.2013			
	FV			NV	FV			NV
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives		3,909		129,617		5,052		174,217
1) Fair value		3,909		129,617		5,052		174,217
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**3,909**		**129,617**		**5,052**		**174,217**

Key
NV = notional value

The table shows the positive book value of hedging derivative contracts.

Equity investments - caption 100

10.1 Investments in subsidiaries, companies subject to joint control or companies subject to significant influence:

details of holdings

Name	Head office	% Held
A. Subsidiaries		
Banca Popolare di Spoleto	*Spoleto*	72.160
C. Associates (subject to significant influence)		
Chiara Assicurazioni S.p.A.	*Milan*	32.665
Istifid S.p.A.	*Milan*	30.935

Note that, on 2 July 2014, the percentage held in Banca Popolare di Spoleto (BPS) fell to 72.13% on the closure of the offer relating to the capital increase reserved for the employees of BPS.

10.2 Investments in subsidiaries, companies subject to joint control or companies subject to significant influence:

accounting information

Name	Total assets	Total revenues	Profit	Shareholders' equity	Book value
A. Subsidiaries					
Banca Popolare di Spoleto (1)					139,750
Total A	**-**	**-**	**-**	**-**	**139,750**
C. Associates (subject to significant influence)					
Chiara Assicurazioni S.p.A. (2)	73,302	27,256	2,311	18,407	12,648
Istifid S.p.A. (2)	11,688	5,695	171	4,068	1,412
Total C	**84,990**	**32,951**	**2,482**	**22,475**	**14,060**
Total	84,990	32,951	2,482	22,475	153,810

(1) in extraordinary administration
(2) with the exception of book value, other figures refer to the 2013 financial statements, the last financial statements approved

The investment in BPS was acquired on 16 June 2014

Analysis of trigger events for impairment testing of equity investments (in associated companies)

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, an impairment test was carried out at 31 December 2013 for financial statement purposes.

Impairment testing is designed to check that the carrying amount of equity investments does not exceed their recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the investment.

For further information on the impairment testing of equity investments, please refer to the explanatory notes to the financial statements at 31 December 2013.

The verification at 30 June 2014 of the existence of indications of impairment of equity investments in companies subject to significant influence had a negative outcome, with the exception of the investment in Chiara Assicurazioni Spa.

In particular, in order to verify the existence of conditions that would have required the impairment tests to be repeated at the reporting date, certain qualitative and quantitative indicators of presumed impairment were monitored at legal entity level.

The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment tests performed for financial statement purposes at 31 December 2013. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans/gross premiums in terms of CAGR, capital ratios and the cost of capital (Ke).

As a result of this analysis, no trigger events were identified that would have required impairment testing to be repeated or the recognition of write-downs in the interim consolidated financial report for the period ended 30 June 2014, with the exception of the investment in the associated company Chiara Assicurazioni Spa, for which there was a need to repeat impairment testing due to the fact that the result for the period was lower than forecast by the development plan for the company and the amount of the difference exceeded the threshold established by internal policy for the analysis of a trigger event.

Impairment testing on the investment in Chiara Assicurazioni Spa has thus been performed on the basis of the criteria and assumptions set out below.

a) <u>Criterion to estimate the recoverable amount (impairment)</u>

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows
The time horizon for impairment testing of the associate Chiara Assicurazioni Spa is the period covered by the 2013-2019 business development plan backed by contractual arrangements for the period 2013-2022 executed with Helvetia Group, appropriately revised at the reporting date in order to be more conservative, based on more recent indications provided by company management.

<u>Cash flows</u>
For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value, as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

<u>Discount rate</u>
For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

<u>Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows</u>
A long term growth rate is used in line with the projected long term inflation rate.

<u>Terminal Value</u>
This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific equity investment, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing
The main assumptions used for impairment testing are set out below.

Legal entity	Model	Input used	CAGR Gross premiums	Ke	g	Currency	Plan flows	Capital ratio
Chiara Assicurazioni Spa	DDM	updated 2013-2022 development plan backed by contractual agreements	4.87%	10.87%	2%	€	Net results	(**)

(**) Complies with the requirements of the respective industry specific or local regulatory authorities in the countries where the entity is located.

As a result of the impairment testing performed, no writedown was needed of the aforementioned equity investment.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis
Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

Equity investments	SCR multiplier (1)	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate in projections used to calculate the terminal value	Decrease in net future results (RN)	MKT transaction price difference
Chiara Assicurazioni Spa	120%	607	-	31%	-
	150%	584	-	29%	-

(1) Sensitivity measured on the basis of two different scenarios for capital allocation: of 120% and of 150% of the SCR Solvency Capital Requirement – Solvency II – IVASS

Property, plant and equipment - caption 120

12.1 Property, plant and equipment - for business purposes: breakdown of assets valued at cost

Assets/Amounts	30.06.2014	31.12.2013
1.1 Own assets	**146,752**	**143,306**
a) land	43,900	41,184
b) property	88,765	86,993
c) furniture	5,545	6,125
d) electronic systems	2,086	1,858
e) other	6,456	7,146
1.2 Assets purchased under finance leases		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**146,752**	**143,306**

There are no assets held under finance leases at 30 June.

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:
property: 50 years,
office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
vehicles used for business purposes: 8 years
terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different useful lives.

All categories of property, plant and equipment are depreciated on a straight line basis, except for land, which is not depreciated.

12.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.06.2014				31.12.2013			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,103**			**972**	**1,111**			**972**
a) land	448			395	448			395
b) property	655			577	663			577
2. Assets purchased under finance leases								
a) land								
b) property								
Total	1,103			972	1,111			972

Intangible assets - caption 130

13.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2014		31.12.2013	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		23,533		23,533
A.1.1 Pertaining to the Group		23,533		23,533
A.1.2 Pertaining to minority interests				
A.2 Other intangible assets	2,207		1,973	
A.2.1 Carried at cost:	2,207		1,973	
a) Intangible assets generated internally				
b) Other assets	2,207		1,973	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	**2,207**	**23,533**	**1,973**	**23,533**

Intangible assets with an indefinite useful life are subjected to impairment testing at least one a year, particularly at the year end reporting date or in those cases whereby events have occurred that could be indicative of impairment.

Other intangible assets are amortised on a straight line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is 4 years and for application software it is 5 years.

Analysis of trigger events for impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, an impairment test on cash generating units (CGU), which for Banco Desio coincide with the Legal entity, was carried out at 31 December 2013 for financial statement purposes.

Impairment testing is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGUs.

For further information on the impairment testing of CGUs, please refer to the explanatory notes to the consolidated financial statements at 31 December 2013.

The impairment test carried out at 30 June 2014 on the CGUs did not reveal any signs of losses.

In particular, in order to verify the possible existence of conditions that would have required the impairment tests to be repeated at the date of this financial report, monitoring was carried out on some qualitative and quantitative indicators of presumed impairment for each CGU, or legal entity, as well as for the Banco Desio Group as a whole (level 2 test, again considering the market capitalisation). The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment tests carried out for financial statement purposes at 31 December 2013. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of RWA, capital ratios and the cost of capital (Ke).

As a result of this analysis, no trigger events were identified, neither for the CGUs nor for the Group (also taking account of the previously indicated case of the associated company Chiara Assicurazioni Spa) that would have required impairment testing to be repeated or the recognition of write-downs in the interim consolidated financial report for the period ended 30 June 2014.

Tax Assets and Liabilities - asset caption 140 and liability caption 80

14.1 Deferred tax assets: breakdown

	Ires	Irap	30.06.2014	31.12.2013
A) With contra-entry to the income statement:				
Tax losses				
Tax deductible goodwill	2,420	451	2,871	2,981
Write-down of loans to customers deductible on a straight-line basis	75,174	7,227	82,401	75,244
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	9		9	9
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	81		81	73
Provision for guarantees and commitments and country risk	318		318	497
Provisions for personnel costs	4,721		4,721	4,046
Provision for lawsuits	2,441		2,441	2,277
Provision for claw-backs	285	53	338	369
Provision for sundry charges	315		315	286
Tax provision for termination indemnities	308		308	305
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year	384		384	358
Other	27	24	51	59
Total A	**86,788**	**7,755**	**94,543**	**86,809**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	569		569	536
Write-down of securities classified as AFS	584	116	700	1,393
Writedown of equity investments				
Total B	**1,153**	**116**	**1,269**	**1,929**
Total (A+B)	**87,941**	**7,871**	**95,812**	**88,738**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2014	31.12.2013
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	7,055	864	7,919	7,997
Tax depreciation of property, plant and equipment		15	15	16
Tax amortisation of goodwill	965	180	1,145	1,090
Tax amortisation of deferred charges (software)	2	5	7	7
Tax provision as per art. 106, paragraph 3	234		234	20
Tax provision for termination indemnities				
Other	2,258		2,258	319
Total A	**10,514**	**1,064**	**11,578**	**9,449**
B) With contra-entry to shareholders' equity				
Revaluation of AFS securities	3,451	643	4,094	2,329
Revaluation of equity investments	7	26	33	30
Tax provision for termination indemnities	19		19	199
Total B	**3,477**	**669**	**4,146**	**2,558**
Total (A+B)	**13,991**	**1,733**	**15,724**	**12,007**

The table shows the deferred tax assets that will be absorbed in future years.

Other assets - caption 160

16.1 Other assets: breakdown

	30.06.2014	31.12.2013
Tax credits		
- capital	7,614	7,532
- interest		
Amounts recoverable from the tax authorities for advances paid	31,137	19,362
Withholding tax credits	4	4
Cheques negotiated to be cleared	29,536	24,163
Guarantee deposits	267	2
Invoices issued to be collected	1,510	1,251
Debtors for securities and coupons to be collected by third parties		
Printer consumables and stationery		
Items being processed and in transit with branches	34,058	28,112
Currency spreads on portfolio transactions	285	261
Investments of the supplementary fund for termination indemnities	481	549
Leasehold improvement expenditure	17,918	19,361
Accrued income and prepaid expenses	2,501	577
Other items	12,487	17,407
Total	**137,798**	**118,581**

"Items being processed and in transit with branches" include transactions that are usually settled within the first few days of the following half-year.

The amount of "Currency spreads on portfolio transactions" results from the offset of illiquid liability positions against illiquid asset positions relating to remittances pertaining to customers' and the bank's portfolios.

"Leasehold improvement expenditure" is amortised each year in accordance with the residual period of the lease agreement.

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions; the main entry of this caption relates to prepaid administrative costs.

The most significant component of “Other items” relates to some Euro 3,158 thousand of receivables still to be collected (Euro 9,618 thousand at 31.12.2013).

LIABILITIES

Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	30.06.2014	31.12.2013
1. Due to central banks	**406,030**	**405,546**
2. Due to banks	**65,199**	**32,480**
2.1 Current accounts and demand deposits	61,149	20,458
2.2 Restricted deposits	3,412	11,730
2.3 Loans		
2.3.1 Repurchase agreements		
2.3.2 Other		
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	638	292
Total	**471,229**	**438,026**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**471,229**	**438,026**
Total fair value	**471,229**	**438,026**

Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	30.06.2014	31.12.2013
1. Current accounts and demand deposits	4,957,239	4,364,310
2. Restricted deposits	844,132	768,388
3. Loans	63,594	333,292
3.1 Repurchase agreements	59,248	326,207
3.2 Other	4,346	7,085
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	27,544	23,792
Total	**5,892,509**	**5,489,782**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**5,892,509**	**5,489,665**
Fair value	**5,892,509**	**5,489,665**

Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

	30.06.2014				31.12.2013			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,929,005		1,958,883		2,001,106		2,001,090	
1.1 structured	*51,471*		*52,348*		*51,327*		*51,688*	
1.2 other	*1,877,534*		*1,906,535*		*1,949,779*		*1,949,402*	
2. Other securities	157,244			157,244	237,986			237,986
2.1 structured								
2.2 other	*157,244*			*157,244*	*237,986*			*237,986*
Total	**2,086,249**		**1,958,883**	**157,244**	**2,239,092**		**2,001,090**	**237,986**

This caption includes funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost, inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 142,909 thousand were issued with a short term maturity and Euro 14,331 thousand were issued with a longer than short term maturity

The amounts shown in the fair value columns represent the theoretical market value of debt securities in issue.

3.2 Analysis of caption 30 "Debt securities in issue": subordinated s

Bonds	30/06/2014	31/12/2013
ISIN code IT0004481872 maturity 04.05.2014		30,015
ISIN code IT0004552110 maturity 15.12.2014	29,995	29,984
ISIN code IT0004654866 maturity 01.12.2015	12,994	12,993
ISIN code IT0004780182 maturity 29.12.2016	13,000	13,001
ISIN code IT0004815855 maturity 15.06.2017	13,009	13,009
ISIN code IT0004921166 maturity 03.06.2018	13,028	13,029
Total	**82,026**	**112,031**

Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	30.06.2014					31.12.2013				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives				327					480	
1.1 For trading				327					480	
1.2 Connected with the fair value option										
1.3 Other										
2. Credit derivatives										
2.1 For trading										
2.2 Connected with the fair value option										
2.3 Other										
Total B				**327**					**480**	
Total A+B				**327**					**480**	

Key

NV = Nominal or notional value

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

Financial liabilities designated at fair value through profit and loss - caption 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown

Type of transaction/Amounts	30.06.2014					31.12.2013				
	nominal value	fair value			FV*	nominal value	fair value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**27,500**		**28,618**		**29,177**	**37,800**		**38,617**		**39,731**
3.1 Structured	27,500		28,618			37,800		38,617		
3.2 Other										
Total	**27,500**		**28,618**		**29,177**	**37,800**		**38,617**		**39,731**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

The table provides details of financial liabilities consisting of bonds issued by Banco Desio, which have been measured at fair value and which have been hedged by the use of the fair value option.

Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	30.06.2014				31.12.2013			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives						**2,894**		**15,000**
1) Fair value						2,894		15,000
2) Cash flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total						**2,894**		**15,000**

Other liabilities - caption 100

10.1 Other liabilities: breakdown

	30.06.2014	31.12.2013
Due to tax authorities	1,391	345
Amounts payable to tax authorities on behalf of third parties	33,779	15,466
Social security contributions to be paid	4,597	5,186
Dividends due to shareholders	10	9
Suppliers	10,806	11,646
Amounts available to customers	13,902	15,006
Interest and dues to be credited		222
Payments against bill instructions	400	425
Early payments on loans not yet due	102	97
Items being processed and in transit with branches	100,190	36,903
Currency differences on portfolio transactions	151,721	52,130
Due to personnel	4,086	5,168
Sundry creditors	121,620	17,414
Provisions for guarantees given and commitments	2,223	2,875
Accrued expenses	7,402	1,747
Total	**452,229**	**164,639**

"Items being processed and in transit with branches" include transactions that are usually settled within the first few days of the following half-year.

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks.

“Due to personnel” includes a payable relating to early retirement incentives of Euro 2,724 thousand.

“Sundry creditors” include an amount of Euro 104,812 thousand relating to 75% of the subscribed capital increase of Banca Popolare Spoleto that was paid in July 2014 under the terms of the investment agreement.

Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Items/Components	30.06.2014	31.12.2013
1. Pensions and similar commitments	27	27
2. Other provisions for risks and charges	36,260	38,994
2.1 Legal disputes	*13,348*	*15,137*
2.2 Personnel expenses	*20,140*	*17,837*
2.3 Other	*2,772*	*6,020*
Total	**36,287**	**39,021**

Charges for "legal disputes" include provisions made in the year for expected losses of Euro 12,311 thousand, arising from legal disputes and of Euro 1,037 thousand from bankruptcy clawback actions.

The caption "Other" includes provisions for charges pertaining to other operating risks, including those relating to tax disputes.

For further details of disputes concerning legal disputes, tax disputes and other operating risks, reference should be made to "Information on risks and hedging policies".

Group Shareholders' equity - captions 140, 160, 170, 180, 190, 200 and 220

15.1 "Share capital" and "Treasury shares": breakdown

	30.06.2014	31.12.2013
A. Share capital	67,705	67,705
A.1 Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	67,705	67,705

The share capital of Banco Desio Brianza, fully subscribed and paid, consists of:

- 117,000,000 ordinary shares with nominal value of Euro 0.52 each;
- 13,202,000 savings shares with nominal value of Euro 0.52 each.

No Group company holds or has held any treasury shares in the course of the period.

Minority interests - caption 210

Minority interests: breakdown

	Banking Group	Insurance company	30.06.2014	31.12.2013
1. Share capital of minority interests	100		100	100
2. Share premium reserve of minority interests				
3. Reserves	11		11	19
4. Treasury shares				
5. Valuation reserves				
6. Equity instruments of minority interests				
7. Net profit/loss of the year of minority interests	46		46	102
Total	157		157	221

INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2014	30.06.2013
1. Financial assets held for trading	1		317	318	441
2. Financial assets designated at fair value through profit and loss					
3. Financial assets available for sale	10,673			10,673	12,769
4. Financial assets held to maturity	619			619	3,201
5. Due from banks	301	894		1,195	996
6. Loans to customers		142,556		142,556	137,023
7. Hedging derivatives			1,393	1,393	2,206
8. Other assets			2	2	4
Total	**11,594**	**143,450**	**1,712**	**156,756**	**156,640**

Caption "1. Financial assets held for trading – Other transactions" includes the positive balance of differentials on derivative contracts.

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 2,879 thousand .

Conversely, the caption includes default interest collected in the year of Euro 153 thousand, of which Euro 141 thousand relates to prior years.

1.2 Interest and similar income: differentials on hedging transactions

Captions	30.06.2014	30.06.2013
A. Positive differentials on hedging transactions	1,991	3,390
B. Negative differentials on hedging transactions	(598)	(1,184)
C. Balance (A-B)	**1,393**	**2,206**

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2014	30.06.2013
1. Due to central banks	(482)			(482)	(1,361)
2. Due to banks	(198)			(198)	(63)
3. Due to customers	(26,921)			(26,921)	(32,783)
4. Debt securities in issue		(26,569)		(26,569)	(29,441)
5. Financial liabilities held for trading					
6. Financial liabilities designated at fair value through profit and loss		(450)		(450)	(579)
7. Other liabilities and provisions					(31)
8. Hedging derivatives					
Total	**(27,601)**	**(27,019)**		**(54,620)**	**(64,258)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.06.2014	30.06.2013
a) guarantees given	1,228	1,154
b) credit derivatives		
c) management, brokerage and consulting services:	16,246	14,227
1. trading in financial instruments	7	100
2. trading in foreign exchange	762	581
3. asset management	1,309	1,109
3.1. individual	1,045	760
3.2. collective	264	349
4. custody and administration of securities	797	860
5. custodian bank		
6. placement of securities	3,999	2,617
7. order taking	5,290	4,741
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	4,082	4,219
9.1 asset management	167	215
9.1.1. individual	167	215
9.1.2. collective		
9.2 insurance products	3,912	3,961
9.3 other products	3	43
d) collection and payment services	10,916	10,802
e) servicing related to securitisation		
f) services for factoring transactions	83	75
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	25,672	25,346
j) other services	9,945	10,234
Total	**64,090**	**61,838**

2.2 Commission expense: breakdown

Services/Amounts	30.06.2014	30.06.2013
a) guarantees received	(22)	(19)
b) credit derivatives		
c) management and brokerage services	(706)	(657)
1. trading in financial instruments	(35)	(30)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(671)	(627)
5. placement of financial instruments		
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(1,516)	(1,460)
e) other services	(6,081)	(6,511)
Total	**(8,325)**	**(8,647)**

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2014		30.06.2013	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading				
B. Financial assets available for sale	88		117	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	**88**		**117**	

The table shows dividend income from non-controlling interests classified as financial assets available for sale.

Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading		**138**		**(42)**	**96**
1.1 Debt securities		81		(41)	40
1.2 Equity instruments		3		(1)	2
1.3 UCITS units					
1.4 Loans					
1.5 Other		54			54
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange differences					**939**
4. Derivatives	**146**	**6**	**(2)**		**150**
4.1 Financial derivatives:	146	6	(2)		150
- On debt securities and interest rates	124		(2)		122
- On equities and equity indices	7	6			13
- On currency and gold					15
- Other					
4.2 Credit derivatives					
Total	**146**	**144**	**(2)**	**(42)**	**1,185**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives used to hedge financial instruments for which the fair value option was adopted and for which the measurement results are shown in the table "Net change in value of financial assets and liabilities designated at fair value".

Caption "3 Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from the translation of foreign currency assets and liabilities that differ from those held for trading.

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income item/Amounts	30.06.2014	30.06.2013
A. Income relating to:		
A.1 Fair value hedges	220	3,968
A.2 Hedged financial assets (fair value)		48
A.3 Hedged financial liabilities (fair value)	943	2,517
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**1,163**	**6,533**
B. Charges relating to:		
B.1 Fair value hedges	(1,448)	(4,999)
B.2 Hedged financial assets (fair value)	(706)	(1,685)
B.3 Hedged financial liabilities (fair value)	(91)	
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(2,245)**	**(6,684)**
C. Net hedging gains (losses) (A-B)	**(1,082)**	**(151)**

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – financial assets available for sale and bonds issued by the Group, respectively – as well as from the related hedging derivatives.

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2014			30.06.2013		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	19	(467)	(448)			
3. Financial assets available for sale	35,470	(3,226)	32,244	31,883	(3,725)	28,158
3.1 Debt securities	35,464	(3,196)	32,268	31,228	(3,628)	27,600
3.2 Equity instruments					(1)	(1)
3.3 UCITS units	6	(30)	(24)	655	(96)	559
3.4 Loans						
4. Financial assets held to maturity	12,428		12,428			
Total assets	**47,917**	**(3,693)**	**44,224**	**31,883**	**(3,725)**	**28,158**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	21	(1,340)	(1,319)	98	(284)	(186)
Total liabilities	**21**	**(1,340)**	**(1,319)**	**98**	**(284)**	**(186)**

The caption includes the net gain (loss) on disposal of financial assets, excluding those held for trading and those designated at fair value through profit and loss, as well as the net gain (loss) from the repurchase of own securities.

The caption "2. Loans to customers" includes the net gain (loss) on disposal of non-performing loans.

The caption "3. Financial assets available for sale" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. The gains from the sale of UCITS units include the related tax credit.

As regards financial liabilities, the caption "3. Debt securities in issue" includes the net gain (loss) from the repurchase of our bonds.

Net results on financial assets and liabilities designated at fair value - caption 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)] 30.06.2014
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					
1.3 UCITS units					
1.4 Loans					
2. Financial liabilities	**10**	**8**	**(515)**	**(19)**	**(516)**
2.1 Debt securities	10	8	(515)	(19)	(516)
2.2 Due to banks					
2.3 Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives	**422**	**160**	**(433)**		**149**
Total	**432**	**168**	**(948)**	**(19)**	**(367)**

The net gains (losses) on financial assets and liabilities designated at fair value result from the difference between the fair value measurement of bonds, subject to "natural hedging" on having applied the fair value option and the corresponding financial derivatives.

They also include the net gains (losses) from trading in our bonds.

Net impairment adjustments - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2014	30.06.2013
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(2,563)	(70,876)	(531)	6,376	11,071		264	(56,259)	(69,864)
Impaired loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(2,563)	(70,876)	(531)	6,376	11,071		264	(56,259)	(69,864)
- Debt securities									
C. Total	**(2,563)**	**(70,876)**	**(531)**	**6,376**	**11,071**		**264**	**(56,259)**	**(69,864)**

Key
A = Interest
B = Other write-backs

This caption includes impairment write-downs and write-backs recognised in connection with loans to customers.

As regards "Write-downs" the figure in the "Write-offs" column relates to losses from the write-off of non-performing loans.

"Write-downs – Other", which arise from the analytical assessment of the probability of recovery of doubtful loans and by discounting cash flows expected to be generated thereby, particularly from non-performing loans, mainly relate to:

- Doubtful loans for Euro 32,947 thousand;
- Watchlist loans for Euro 36,290 thousand;
- Restructured loans for Euro 14 thousand;
- Past due loans for Euro 1,625 thousand.

"Portfolio write-downs" relate to the performing loans portfolio.

The specific "interest" write-backs (A) relate to the write-back of interest at the assumed discount rates on the capital element which is deemed to be recoverable relating to non-performing loans and watchlist loans.

8.2 Net impairment write-downs/write-backs of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		30.06.2014	30.06.2013
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities				215	215	
B. Equity instruments						
C. UCITS units						
D. Loans to banks						
E. Loans to customers						
F. Total				**215**	**215**	

Key
A = Interest
B = Other write-backs

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2014	30.06.2013
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(135)			97		690	652	(121)
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E. Total		**(135)**			**97**		**690**	**652**	**(121)**

Key
A = Interest
B = Other write-backs

Administrative expenses - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	30.06.2014	30.06.2013
1) Employees	(65,844)	(81,658)
a) Wages and salaries	(44,187)	(45,971)
b) Social security charges	(11,649)	(11,972)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(753)	(393)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(4,083)	(4,260)
- defined contribution	(4,083)	(4,260)
- defined benefit		
h) Equity-based payments	(194)	(175)
i) other personnel benefits	(4,978)	(18,887)
2) Other active employees	(276)	(594)
3) Directors and auditors	(2,201)	(1,919)
4) Retired personnel		
Total	**(68,321)**	**(84,171)**

The caption "1.g – payments to external supplementary pension funds: defined contribution" includes part of the termination indemnities paid to the state pension scheme and to supplementary pension funds.

Details of caption "1.i) – other employee benefits" are provided in table 11.4 below.

11.2 Average number of employees by level

	30.06.2014	30.06.2013
1) Employees	**1,743**	**1,780**
a) managers	25	29
b) middle managers	884	904
c) other employees	834	847
2) Other personnel	**4**	**18**

11.4 Other personnel benefits

	30.06.2014	30.06.2013
Provision for sundry charges	(2,258)	(1,115)
Contributions to healthcare fund	(772)	(701)
Training and instruction costs	(703)	(258)
Rent expense of property used by employees	(96)	(79)
Redundancy incentives	(131)	(15,598)
Other	(1,018)	(1,136)
Total	**(4,978)**	**(18,887)**

The main components of “Other” include the cost of meal vouchers given to employees (ticket restaurant) of Euro 775 thousand and the cost of insurance premiums of Euro 140 thousand.

11.5 Other administrative costs: breakdown

	30.06.2014	30.06.2013
Indirect taxes and duties:		
- Stamp duty	(11,037)	(8,536)
- Other	(2,167)	(2,360)
Other costs:		
- IT expenses	(5,662)	(5,624)
- Lease of property and other assets	(5,758)	(5,839)
- Maintenance of buildings, furniture and equipment	(1,941)	(1,656)
- Post office and telegraph	(1,103)	(1,190)
- Telephone and data transmission	(2,189)	(1,734)
- Electricity, heating, water	(1,784)	(1,947)
- Cleaning services	(499)	(625)
- Printed matter, stationery and consumables	(350)	(405)
- Transport costs	(491)	(381)
- Surveillance and security	(578)	(665)
- Advertising	(395)	(342)
- Information and surveys	(582)	(690)
- Insurance premiums	(383)	(586)
- Legal fees	(3,432)	(2,873)
- Professional consulting fees	(4,573)	(5,359)
- Various contributions and donations	(56)	(38)
- Sundry expenses	(3,062)	(2,848)
Total	**(46,042)**	**(43,697)**

Net provisions for risks and charges - caption 160

12.1 Net provisions for risks and charges: breakdown

12.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	30.06.2014	30.06.2013
Net provisions for legal dispute charges	(1,319)	2,083	764	(827)
Net provisions for personnel costs				
Net provisions for risks and other charges	(305)		(305)	(2,378)
Total	**(1,624)**	**2,083**	**459**	**(3,205)**

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.

Other charges include provisions for other operating risks, inclusive of tax disputes.

Net adjustments to property, plant and equipment - caption 200

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 30.06.2014
A. Property, plant and equipment				
A.1 Owned	(2,929)			(2,929)
- for business purposes	(2,921)			(2,921)
- for investment purposes	(8)			(8)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	**(2,929)**			**(2,929)**

The adjustments consist entirely of depreciation computed over the useful lives of the assets.

Net adjustments to intangible assets - caption 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 30.06.2014
A. Intangible assets				
A.1 Owned	(520)			(520)
- *Generated internally*				
- *Other*	*(520)*			*(520)*
A.2 Held under finance leases				
Total	**(520)**			**(520)**

The adjustments consist entirely of amortisation computed over the useful lives of the assets.

Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	30.06.2014	30.06.2013
Amortisation of leasehold improvements	(1,105)	(1,319)
Losses on disposal of property, plant and equipment	(12)	(13)
Charges on non-banking services	(107)	(430)
Total	**(1,442)**	**(1,762)**

15.2 Other operating income: breakdown

	30.06.2014	30.06.2013
Recovery of taxes from third parties	12,095	9,942
Recharge of costs of current accounts and deposits	4,504	5,185
Rental and leasing income	25	11
Other expense recoveries	2,966	2,908
Gains on disposal of property, plant and equipment	1,979	1,493
Other	148	297
Total	**21,717**	**19,836**

"Recharge of costs" includes recoveries for rapid preliminary investigation fees of Euro 3,219 thousand and other recoveries for various communications to customers of Euro 1,129 thousand.

Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	30.06.2014	30.06.2013
1) Companies subject to joint control		
A. Income		
1. From investments carried at equity (revaluations)		
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses		
1. From investments carried at equity (write-downs)		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		
2) Associates (subject to significant influence)		
A. Income	**557**	**12,164**
1. From investments carried at equity (revaluations)	557	372
2. Gains on disposal		11,792
3. Write-backs		
4. Other income		
B. Losses		
1. From investments carried at equity (write-downs)		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	**557**	**12,164**
Total	**557**	**12,164**

Income taxes on current operations - caption 290

20.1 Income taxes on current operations: breakdown

Income item/Amounts	30.06.2014	30.06.2013
1. Current taxes (-)	(24,556)	(26,213)
2. Change in prior period income taxes (+/-)	4	(13)
3. Reduction in current taxes (+)		44
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	8,893	22,100
5. Change in deferred tax liabilities (+/-)	(1,909)	(18)
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(17,568)**	**(4,100)**

"Change in prior period income taxes (+/-)" relates to an overprovision of current taxes made in prior years.

The changes in deferred tax assets and liabilities include amounts of Euro 479 thousand and Euro 93 thousand, respectively, relating to the reversal of taxation due to the introduction of the new IRAP rate of 5.12% under Legislative Decree no. 66/2014 (ratified by Law no. 89/2014).

The decrease in "Change in deferred tax assets" of Euro 13,207 thousand is mainly due to:

- a reduction in the deferred tax asset pertaining to writedowns of customer loans, which are deductible on a straight-line basis, and to provisions for personnel costs;
- an increase in deferred tax assets reversed in the year due to the impact of the reabsorption of prior year writedowns of loans over five years rather than over 18 years.

Information on risks and related hedging policy

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures.

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the Parent Company's Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, as envisaged by the specific "Consolidated Texts" by function, as well as – for those cases where the Parent Company outsources the internal control function for certain subsidiaries – in accordance with the provisions of the relevant framework agreements.

The Board of Directors of the Parent Company approves, at least annually, the "Policy for risk appetite and risk management", which defines risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Furthermore, specific alerts are envisaged in the event of thresholds being exceeded. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system.

SECTION 1 - RISKS FACED BY THE BANKING GROUP

1.1 CREDIT RISK

Qualitative information

1. *General aspects*

The Group's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the *retail, small business and small SME* markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), medium and large companies and customers in the financial sector, mainly include the following products: loans and deposits in any form; financial, banking and payment services; documentary credit; leasing and factoring; financial, insurance and asset management products; debit and credit cards.
Trade policy is pursued through the peripheral branch network, both in the geographical areas where the Group has traditionally been present, in order to consolidate its position on an ongoing basis, and in new markets where branches have been opened more recently with the aim of gaining new market shares and to facilitate the growth of business volume.

2. Credit risk management policies

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.
The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions.
The Parent Company's Board of Directors has exclusive power to lay down the guidelines that have an impact on the running of the Group's affairs. As regards internal controls and risks, the Board of Directors approves, at Group level, the strategic direction and policies for risk management, as well as the organisational structure.
The Parent Company's Board of Directors lays down the ways in which each subsidiary has to implement the various levels of control, taking into account the nature and size of the subsidiary's activity and its location; The Board of Directors also identifies the functions of the Parent Company that are responsible for specific control mechanisms, establishing suitable information flows.

2.2. Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.
These risk management, measurement and monitoring systems are performed by a specialist department at the Parent Company, where certain functions outsourced by subsidiaries have been centralised. The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship. As part of its corporate risk management policy, the Group has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Parent Company's Risk Management Department activates an internal procedure for an intervention by the competent corporate functions in order to maintain a risk appetite level consistent with guidance provided by risk management policy. As part of the process for the adaptation of the Internal Control System (as per Circular 263), a “Credit Risk Control” structure has been established within the Risk Management Department with the task of verifying that credit exposures are properly monitored, of supervising the monitoring of loans by the competent corporate functions and of intervening, where necessary, in the classification of problem loans and in ensuring appropriate provisions are made.
For risk management purposes, Banco Desio Group uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. In the course of 2014 the Group implemented methodological updates to the Credit Rating System aimed at the development of a statistical system. The new Logit statistical model provides for the determination of PD (probability of default) by means of a combined analysis and assessment of trends and fundamental factors. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due, watchlist loans e doubtful loans).
For the purpose of calculating the capital requirement for credit risk, the Group follows the rules laid down in the regulations for the standardised approach.

2.3. Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but for significant amounts, there are also pledges on securities and/or cash.
Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

To date, the Group does not use credit derivatives to hedge or transfer credit risk and has not carried out any direct securitisations.

2.4. Impaired financial assets

Loans are classified as doubtful when, in the light of objective evidence collected by the relevant offices, the customer proves unable to meet its commitments and is therefore in a state of insolvency, even if this has not yet been declared by the court.

Customer loans classified as watchlist are those that relate to situations of temporary economic, financial or operating difficulties, which could potentially be overcome within a reasonable time limit.

Included in this category are so-called “objective substandard loans” with specific features described by the supervisory requirements.

To be classified under restructured loans, whether for cash or "off-balance sheet items", the Group complies with the supervisory requirements , analytically assessing the presence of the conditions laid down in the regulations.

As regards past due loans, which at the reporting date are more than 90 days past due, they are constantly monitored by the relevant departments through the use of specific IT procedures in order to verify there is continuity as prescribed by regulations.

As for the criteria and procedures for evaluating the appropriateness of adjustments, they are based on objectivity and prudence.

The expected loss is, in fact, the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and organic and, in any case, compared with the development of the individual position. The time element linked to the present value of impaired loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

Quantitative information

Credit quality

A.1.1 Distribution of credit exposure by portfolio and quality of lending (book values)

Portfolio/Quality	Banking Group						Other businesses						Total
	Doubtful loans	Watchlist loans	Restructured loans	Past due non-performing loans	Past due performing loans	Other assets	Doubtful loans	Watchlist loans	Restructured loans	Past due non-performing loans	Non-performing	Other assets	
1. Financial assets held for trading					2	2,077							2,079
2. Financial assets available for sale						1,235,935							1,235,935
3. Financial assets held to maturity													
4. Due from banks						513,119							513,119
5. Loans to customers	273,043	166,653	4,334	27,744	398,613	6,615,117							7,485,504
6. Financial assets designated at fair value through profit and loss													
7. Financial assets being sold													
8. Hedging derivatives						3,909							3,909
Total 30.06.2014	**273,043**	**166,653**	**4,334**	**27,744**	**398,615**	**8,370,157**							**9,240,546**
Total 31.12.2013	**233,383**	**177,754**	**1,722**	**46,272**	**375,854**	**7,975,611**							**8,810,596**

A.1.2 Distribution of credit exposures by portfolio and quality of lending (gross and net values)

Portfolio/Quality		Non-performing loans			Performing loans			Total (net exposure)
		Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
A. Banking group								
1. Financial assets held for trading							2,079	2,079
2. Financial assets available for sale					1,235,935		1,235,935	1,235,935
3. Financial assets held to maturity								
4. Due from banks					513,119		513,119	513,119
5. Loans to customers		738,333	(266,559)	471,774	7,057,963	(44,233)	7,013,730	7,485,504
6. Financial assets designated at fair value through profit and loss								
7. Financial assets being sold								
8. Hedging derivatives							3,909	3,909
Total A		**738,333**	**(266,559)**	**471,774**	**8,807,017**	**(44,233)**	**8,768,772**	**9,240,546**
B. Other companies included in consolidation								
1. Financial assets held for trading								
2. Financial assets available for sale								
3. Financial assets held to maturity								
4. Due from banks								
5. Loans to customers								
6. Financial assets designated at fair value through profit and loss								
7. Financial assets being sold								
8. Hedging derivatives								
Total B								
Total	**30.06.2014**	**738,333**	**(266,559)**	**471,774**	**8,807,017**	**(44,233)**	**8,768,772**	**9,240,546**
Total	**31.12.2013**	**685,498**	**(226,365)**	**459,133**	**8,387,687**	**(44,074)**	**8,351,463**	**8,810,596**

A.1.2.1 Distribution of renegotiated and non-renegotiated performing loan exposures by portfolio

Exposures/Geographical areas		Exposure subject to renegotiation under Collective Agreements					Other exposures					Total (net exposure)
		Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	
1. Financial assets held for trading							2				2,077	2,079
2. Financial assets available for sale											1,235,935	1,235,935
3. Financial assets held to maturity												
4. Due from banks											513,119	513,119
5. Loans to customers		24,619	766	430		191,956	298,968	38,807	14,517	20,506	6,423,161	7,013,730
6. Financial assets designated at fair value through profit and loss												
7. Financial assets being sold												
8. Hedging derivatives											3,909	3,909
Total	**30.06.2014**	24,619	766	430		191,956	298,970	38,807	14,517	20,506	8,178,201	8,768,772

A.1.3 Banking Group - On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans				
b) Watchlist loans				
c) Restructured loans				
d) Past due non-performing loans				
e) Other assets	589,934			589,934
TOTAL A	**589,934**			**589,934**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing				
b) Other	40,133		970	39,163
TOTAL B	**40,133**		**970**	**39,163**
TOTAL A+B	**630,067**		**970**	**629,097**

A.1.6 Banking Group - On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans	465,427	192,384		273,043
b) Watchlist loans	238,492	71,839		166,653
c) Restructured loans	4,907	573		4,334
d) Past due non-performing loans	29,507	1,763		27,744
e) Other assets	8,217,111		44,233	8,172,878
TOTAL A	**8,955,444**	**266,559**	**44,233**	**8,644,652**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	7,641	457		7,184
b) Other	681,038		796	680,242
TOTAL B	**688,679**	**457**	**796**	**687,426**
TOTAL A+B	**9,644,123**	**267,016**	**45,029**	**9,332,078**

Distribution of cash and "off-balance sheet" exposures by external rating class

Based on the compilation rules laid down by the Bank of Italy, the table in question has not been completed because the amount of exposures with external ratings is not significant.

Distribution of cash and "off-balance sheet" exposures by internal rating class

The Group does not use internal rating models for the determination of capital requirements.

The Group uses a rating model to assess retail customers (individual consumers) and corporate customers (Small Businesses, Small and Medium-sized Enterprises, Large Corporate, Real Estate, Financial and Institutional).

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 30.06.2014	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposure	53.41%	31.23%	14.00%	1.36%	100%
Off-balance sheet exposures	66.12%	29.22%	2.61%	2.05%	100%

Major risks

With reference to current supervisory regulations, the situation at 30 June 2014 is reported below (amounts in Euro thousands):

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Major risks	1,888,115	134,763	3

The positions indicated relate to exposures towards the Italian Government, Cassa di Compensazione e Garanzia and Banca Popolare di Spoleto.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK - TRADING PORTFOLIO REPORTED FOR SUPERVISORY PURPOSES

Qualitative information

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the bank to changes in the economic value of assets and liabilities.

The information in this section refers only to Italian Group companies, as the assets held by the other companies are not significant.

The Group adopted a strategy to consolidate a return in line with budget, while maintaining a low risk profile through a low portfolio duration.

B. Management and measurement of interest rate risk and price risk

In carrying out its responsibilities for management and coordination, the Board of Directors of Banco Desio e della Brianza S.p.A., as the Parent Company, issued specific rules on the various levels of controls to all companies in the Banking Group.
Trading by the Parent Company's Finance Department is undertaken only for the Italian Group banks and is subject to operating limits as set out in the "Risk policy" and in the "Consolidated Texts"; in order to mitigate market risk, specific limits have been set for size, duration and VaR. A specific reporting system is the tool used to provide adequate information to the organisational units involved. The content and frequency of reports depend on the objectives assigned to each participant in the process. The results of monitoring are provided daily to the head of the Finance Department and to General Management. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the Parent Company's risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.
For the quantification of generic risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The model is parametric of a variance-covariance type for linear tools with the approximation of the delta-gamma type for optional instruments, and uses a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee. The model covers the assets, in terms of financial instruments, included in both the management and trading portfolios, as defined in the rules governing supervisory reports and subject to the capital requirements for market risks.
The model uses matrices that contain the standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations. The application used to calculate the VaR is ALMpro, while

the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.
To date, currency and interest rate derivatives and options on equities and indices entered into for trading purposes are excluded from the analysis; in any case, they are treated in the same way as brokerage. The VaR of equities is measured by taking into account the relationship (so-called "beta coefficient") that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).
Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.

The internal model is not used in the calculation of capital requirements for market risk.

QUANTITATIVE INFORMATION

Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring carried out in 2014 on the "trading portfolio for supervisory purposes" of the Parent Company and the Italian banking system shows a structure with limited market risks. Given the Group's policy of underweighting price risk, almost all of the "trading portfolio for supervisory purposes" is exposed to interest rate risk. The Parent Company takes almost all of the interest rate and price risk, whereas amount apportioned to the Italian banking subsidiary is marginal.
Related VaR at 30.06.2014 amounted to € 4 thousand, with a percentage lower than 5% of the trading portfolio.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the Parent Company's risk management function. This activity is carried out for the Group's Italian banks, which cover almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with *Asset and Liability Management (ALM)* methods using *ALMpro*. Risks are measured monthly from a static perspective; the simulation form that makes it possible to monitor and manage interest rate risk from a dynamic standpoint is also active.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of GapAnalysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are performed through parallel shifts in the yield curve. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Assets in the bank book with price risk consist entirely of shares and units in mutual funds. The latter are a marginal portion of the whole and are measured using the VaR techniques.

B. Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group only uses fair value hedges and solely on behalf of the Italian banks in the Group, in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.
To date, hedged instruments relate to both assets and liabilities, the latter being only bonds, while derivative instruments consisting of unquoted securities - mainly interest rate swaps and interest rate options - are used as hedging instruments only to hedge interest rate risk.

The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis. All hedges are specific.

The Group applies the fair value option for certain types of bonds, with the aim of making the entire fair value of the financial instrument more reliable and representative.

C. Cash flow hedges

The Group has not taken out any cash flow hedges.

QUANTITATIVE INFORMATION

Banking book: internal models and other methodologies for the analysis of sensitivity

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value.
The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 30 June 2014, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios at 30 June 2014: parallel shifts in the yield curve

	+100 bps	*-100* bps
% of the expected margin	*4.63%*	*-12.56%*
% of net interest and other banking income	*2.31%*	*-6.27%*
% of shareholders' equity	*0.72%*	*-1.96%*

With regard to the economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure for the first half of 2014 that has been maintained at levels that do not result in significant impacts on total capital.
The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 30.06.2014

	+100 bps	*-100* bps
% of the economic value	*-0.42%*	*0.77%*

1.2.3. EXCHANGE RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.
The exposure to exchange risk is marginal. As regards only the Italian banks, forex operations are managed by the Operations Room of the Parent Company's Finance Department.
Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The Group's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

QUANTITATIVE INFORMATION

Internal models and other methodologies or the analysis of sensitivity

The Group's exchange risk profile is not particularly significant, given the limited foreign currency exposure of the main asset and liability items and the related hedges put in place through the use of financial derivatives.

1.3. LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market. The Group's governance model is based on the Parent Company's system of centralised liquidity management on behalf of the Italian commercial banks, for which the Parent Company is also responsible for funding.
The monitoring of and periodic reporting on liquidity risk is carried out by the Parent Company's Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ALMpro application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) due to unpaid instalments;
- decrease in value of the owned securities portfolio (Available for Sale – AFS);
- repurchase of Bonds issued by the Group;
- use of available facilities for revocable lines of credit (call risk);
- increase in haircuts applied to eligible owned securities that fall within ECB Category I (government bonds).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

1.4. OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

Banco Desio e della Brianza Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

I. Identification: recognition, collection and classification of information relating to operational risks;

II. Measurement: economic measurement of operational risks linked to the Bank's operations;

III. Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;

IV. Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Bank (active since 2007);
- Risk Self Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented some time ago that is capable of providing senior management with information (at aggregate level and in detail) concerning the events in question at predefined intervals. Reports mainly address the following: number of events, amount of losses, gross and net of any recoveries and details of significant events.

The reporting was supplemented with the results from the Risk Self Assessment process and, in compliance with internal regulations, was periodically sent to all the control functions.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", the Group has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned, in compliance with the law and with guidance provided by relevant trade associations, to specific bodies.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been prepared: some time ago, measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Disaster Recovery website was prepared, as an alternative to that for normal business operations, to be used in the event of an emergency and for the performance of related testing. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. A summary table of legal disputes with the related provisions is shown below:

CLAW-BACK SUITS

Group (BdB, BdL, Fides, Rovere)	Number	9
	Claim	€ 4,103,324
	Provision	€ 1,051,699

OTHER LAWSUITS

Group (BdB, BdL, Fides, Rovere)	Number	213
	Claim	€ 91,802,474
	Provision	€ 8,987,145

SIGNIFICANT LAWSUITS (CLAIMS HIGHER THAN € 1 MILLION)

- Plaintiff FAIRFIELD: claim € 2.692 million. Judicial procedure initiated by Fairfield Sentry Limited Fund brought before the United States Bankruptcy Court for the Southern District of New York against Banco di Desio e della Brianza S.p.A. in its capacity as custodian bank of a mutual fund managed by an Italian asset management company. This legal action is aimed at the recovery of payments made between 2005 and 2008 of a total amount of $3,853,221.77 by Fairfield Fund (put into liquidation as a result of the well known events involving Bernard L. Madoff) to Banco di Desio e della Brianza S.p.A. (in its capacity as custodian bank) on behalf of the aforementioned mutual fund. Banco di Desio e della Brianza S.p.A. acted as a mere intermediary in the relationship between Fairfield Fund and the aforementioned mutual fund;

- Claim € 1.833 million. Litigation initiated by the user of a property leased by the Bank to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1,833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property;

- Claim € 1.150 million. The counterparty opposed our injunction with a simultaneous counterclaim for a total amount of € 1.150 million. During the hearing, the court appointed expert witness declared that Banco di Desio e della Brianza S.p.A. had acted correctly. The judgement of the Court of First Instance, which went in favour of Banco di Desio e della Brianza S.p.A., was appealed against. The decision of the Court of Appeal was to reject the counterparty's appeal and to fully accept the motives submitted in defence of Banco di Desio e della Brianza S.p.A. However, Banco di Desio e della Brianza S.p.A. will continue to appear in court (next hearing October 2014). The process has commenced for the seizure of the asset associated with the mortgage loan (asset on which a lien has been granted as collateral for expenses incurred for the judgement of the Court of First Instance);

- Claim € 45.608 million. By writ of summons, the counterparty in Extraordinary Administration brought legal proceedings against Banco di Desio e della Brianza S.p.A. and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of € 45.608 million as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. Banco di Desio e della Brianza S.p.A. appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, the counterparty appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. Having duly appeared before the court, the case was adjourned, with closing arguments to be presented at the hearing scheduled for 2.10.2014;

- Claim: € 2.000 million. By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A., in order to avoid notification of a payment injunction, paid the amount fixed by the judgement made by the Court of First Instance, comprising capital, interest and legal fees, subject to restitution based on the outcome of the appeal proceedings. The case was adjourned, with closing arguments to be presented at the hearing scheduled for 6.11.2014;

- Claim € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. and leased to the counterparty plus amounts paid into a current account. The receiver is of the belief that the payments were made by abnormal means (art. 65 of the Bankruptcy Law) since the cheques that were cashed were made out to the counterparty and not to Banco di Desio e della Brianza S.p.A. The Court of First Instance's judgement went completely in favour of Banco di Desio e della Brianza S.p.A., but the receiver lodged an appeal, prior to the deadline, with the Milan Court of Appeal;

- Claim € 2.784 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date. The expert appraisal will not take less than 12 to 18 months;

- Claim € 1.565 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date. The expert appraisal will not take less than 12 to 18 months;

- Claim € 10.000 million. Banco Desio Lazio S.p.A. has obtained an injunction for the payment of an overdraft. The company opposed the aforementioned injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco Desio Lazio S.p.a. of an amount of Euro 10 million for damages sustained by way of capital reduction and for damage to the company's reputation. The claim for damages was justified by the counterparty as a consequence of an illegitimate withdrawal of banking facilities and for having been consequently reported to Central Risks. Subsequent to its opposition, the company was declared bankrupt, but the case was taken up by the receiver for the continuation of the proceedings. The preliminary proceedings ended with the testimony of the witnesses called by Banco Desio Lazio S.p.A. The counterparty decided not to hear the testimony of its witnesses. The case was adjourned, with closing arguments to be presented at the hearing scheduled for 21.1.2016

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With reference to Criminal Proceedings 22698/08, at the hearing held on 24 January 2014, the Court of Rome upheld the application for settlement presented by the subsidiaries Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation, which in 2011 became involved in these proceedings in connection with the administrative liability of legal persons pursuant to Legislative Decree 231/2001 for alleged offences committed by their former officers. The payment made for the settlement (which closed the legal proceedings in question) led to a partial release in 2013 of the provision that had previously been set up.

TAX LITIGATION

We have the following to say about the Group's outstanding litigation with the Tax Authorities.

With reference to the tax assessments for 2008, which were disclosed in the notes to the 2013 financial statements:

- on 17 January 2014, the Bank complied with the assessment with respect to VAT, by accepting the findings and by paying the amounts assessed in full;
- on 23 May 2014, a tax settlement proposal was agreed for the IRES assessment concerning the treatment of writedowns and loan losses. The settlement was effective as of 5 June 2014 on payment of the agreed amount.

The amounts paid are summarised below:

year	tax	additional tax	penalties (reduced to 1/3)	interest	total paid
2008	VAT	343		57	400
2008	Ires	251	84	43	378
Total		594	84	100	778

(amounts in Euro thousands)

The VAT amounts paid were recharged to the asset management companies in accordance with the provisions of art. 60 para. 7 of Presidential Decree 633/72. Regarding the amounts relating to IRES, the additional tax was accounted for as an offset to amounts recoverable from the tax authorities (recoverable, in part, by filing a claim for a refund and, in part, by a deduction thereof from the tax payable in future tax periods) and the penalties and interest were recognised as costs, which were debited to the provision for risks and charges that had already been set up in the 2013 financial statements.

As regards the issue of having allegedly claimed foreign status without justification for the foreign subsidiaries CPC SA in liquidation, Brianfid SA in liquidation and Rovere SdG, for which disclosure was provided in the explanatory notes to the 2013 financial statements:

- with respect to CPC SA in liquidation, on 29 April 2014 the Monza and Brianza Regional Tax Office notified in advance the annulment in self defence of all the notices of assessment relating to the tax years from 2001 to 2004 that then became definitive on 29 July 2014 on receipt of notification of the Lombardy regional tax office having agreed to the annulment of the aforementioned assessments;
- regarding Brianfid SA in liquidation, on 12 May 2014 payment was made of the amount due under the tax settlement in relation to the notice of assessment issued to the subsidiary Brianfid SA via the former General Manager, Mr Claudio Broggi, for the 2003 tax year;
- on 30 May 2014, the Monza and Brianza Regional Tax Office issued Mr Broggi (General Manager of the Bank, whose employment relationship has since been terminated) in his capacity as alleged de facto director of Brianfid SA in liquidation with notices of assessment relating to the tax years 2005 to 2009 (the tax years 2004, 2010 and 2011 were not subject to inspection as losses were posted for the years in question). The amounts assessed have been revised by the tax authorities, as was the case for the 2003 tax year, after having taken account of the foreign tax already paid by the subsidiary and the regime providing for tax relief on capital gains and dividends received, thus reducing the tax disputed by the Tax Police in their official report of findings. On 27 June 2014 a tax settlement proposal was reached and payment was made of the amounts due for tax, interest and penalties that were reduced to one sixth due to having tacitly agreed to the assessments.

The amounts paid, which completely settled the assessments issued in connection with the subsidiary Brianfid SA in liquidation, as a result of the settlement agreement for 2003 and the acceptance of the assessments for the subsequent years are as follows:

year	tax	additional tax	penalties [1]	interest	total
2003	Ires	138	56	43	237
	Irap	103	41	32	176
2005	Ires	33	7	8	48
	Irap	60	12	16	88
2006	Ires	495	99	115	709
	Irap	101	20	23	144
2007	Ires	410	82	83	575
	Irap	95	19	19	133
2008	Ires	192	38	34	264
	Irap	100	20	17	137
2009	Ires	-	-		-
	Irap	43	9	6	58
Total		1,770	403	396	2,569

(amounts in Euro thousands)

[1] For 2003 penalties were reduced to 1/3 of taxes increased by one-fifth and for 2005 to 2009 penalties were reduced to 1/6 of taxes increased by one-fifth.

The total payment made to settle all the assessments relating to Brianfid SA of Euro 2,569 thousand was debited to the provision for risks recorded by the Bank in its 2013 financial statements in relation to the aforementioned findings.

As regards the issue of having allegedly claimed foreign status without justification for Rovere SdG, the Bank has amply demonstrated that there are no grounds for the dispute and is documenting for the Regional Tax Office, with regard to transfer pricing, the intercompany transactions of interest to the tax authorities, with the aim of settling the dispute.

QUANTITATIVE INFORMATION

The number of detrimental events recorded by the Group in the course of the first half of 2014, comes to 348. The result of the process of collecting adverse events is summarised in the table below (monetary amounts are expressed in thousands of euro):

BANCO DESIO GROUP Event type	No. events	% events	Gross loss	% of total	Net loss	% of total	Recoveries	% recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0	0.00%	0	0.00%	0	0.00%	0	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	29	8.33%	172	8.78%	136	7.08%	37	21.27%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0	0.00%	0	0.00%	0	0.00%	0	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	43	12.36%	1,224	62.36%	1,224	63.85%	0	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0	0.00%	0	0.00%	0	0.00%	0	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	4	1.15%	109	5.55%	109	5.69%	0	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	272	78.16%	457	23.30%	448	23.39%	9	1.97%
TOTAL Gruppo Banco Desio e della Brianza	348	100.00%	1,963	100.00%	1,917	100.00%	46	2.33%

The gross operating loss comes to € 1.96 million, for which prudent provisions were made during the year of € 1.14 million. Of the total gross loss, an amount was recovered of € 0.046 million, resulting in a net loss of € 1.92 million.

Information on the consolidated shareholders' equity

CONSOLIDATED SHAREHOLDERS' EQUITY

Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes.

A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group.

The policy of the Parent Company, Banco Desio, is therefore to assign a considerable priority to capital to use it in the best way possible in expanding the business.

The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business type

Captions/Amounts	Banking Group	Insurance companies	Other businesses	Consolidation adjustments and eliminations	30.06.2014
1. Share capital	67,805	(4,054)		4,054	67,805
2. Share premium reserve	16,145	29		(29)	16,145
3. Reserves	705,215	4,025		(5,082)	704,158
4. Equity instruments					
5. (Treasury shares)					
6. Valuation reserves	32,944			392	33,336
- Financial assets available for sale	7,402				7,402
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash-flow hedges					
- Exchange differences	4,703				4,703
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(2,057)				(2,057)
- Portion of valuation reserves relating to investments carried at equity				392	392
- Special revaluation laws	22,896				22,896
7. Net profit (loss) for the period	31,220			(71)	31,149
Total	**853,329**			**(736)**	**852,593**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Amounts		Banking Group		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		7,664	(384)							7,664	(384)
2. Equity instruments		469								469	
3. UCITS units		792	(1,139)							792	(1,139)
4. Loans											
Total	**30.06.2014**	**8,925**	**(1,523)**							**8,925**	**(1,523)**
Total	**31.12.2013**	**5,110**	**(2,936)**							**5,110**	**(2,936)**

CAPITAL AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

The scope of consolidation, defined in accordance with prudential regulations (Circulars 285 and 286 of the Bank of Italy), includes companies that have the following characteristics:

- banking, financial and product/service companies, directly or indirectly controlled by the Parent Company and consolidated on a line-by-line basis;
- companies, other than banking, financial and product/service companies, controlled directly or indirectly by the Parent Company exclusively or jointly, or subject to significant influence; the equity method is applied to these companies.

The banking and financial companies and the companies other than banking and financial companies carried at equity held directly or indirectly by the Parent Company are included in risk-weighted assets based on articles 46 “Deduction of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities” and 48 “Threshold exemptions from deduction from Common Equity Tier 1 items” of EU regulation no. 575/2013.

Within the Banking Group, there are no restrictions or impediments to the transfer of capital resources between Group companies.

2.2 Own Funds

A. Qualitative information

The new harmonised framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26.6.2013 is applicable from 1 January 2014; it transposes the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union. This regulatory framework defines, among others, the elements included in Own Funds, which forms the basis of the capital requirements that credit institutions must comply with.

As at 30 June 2014, Banco Desio Group's Own Funds consist of the following:

(Amounts in Euro thousands)

description	30.06.2014
Common Equity Tier 1 (CET 1)	€ 792,695
Additional Tier 1 capital (AT1)	€ 5,492
Tier 2 capital (T2)	€ 33,077
Total Own Funds	€ 831,264

Based on legislation in force, the components of Own Funds are described below:

1. Common Equity Tier 1 - CET 1

The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) profit not distributed; d) accumulated other comprehensive income; e) other reserves; f) provisions for general banking risks. Components c) to f) are recognised as common equity tier 1 only if they can be used without restriction and without delay by an entity to cover risks or losses as and when the risks or losses arise.

2. Additional Tier 1 - AT1

The components of Additional Tier 1 are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

3. Tier 2 - T2

The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25 % of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

B. Quantitative information

2.1 Consolidated Own Funds (amounts in Euro thousands)

	30/06/2014	31/12/2013*
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	829,455	802,422
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-579	-1,149
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	828,876	801,273
D. Items to be deducted from CET 1	30,684	30,497
E. Transitional provisions – Impact on CET 1 (+/-), inclusive of minority interests subject to transitional provisions	-5,497	-3,275
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	792,695	767,501
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	6,865	6,865
of which: AT1 capital instruments subject to transitional provisions	6,865	6,865
H. Items to be deducted from AT1	-	-
I. Transitional provisions – Impact on AT1 (+/-), inclusive of capital instruments issued by subsidiaries and included in AT1 due to effects of transitional provisions	-1,373	-1,373
L. Total Additional Tier 1 (AT1) (G - H +/- I)	5,492	5,492
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	30,857	41,021
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-), inclusive of capital instruments issued by subsidiaries and included in T2 due to effects of transitional provisions	2,220	1,310
P. Total Tier 2 (T2) (M - N +/- O)	33,077	42,331
Q. Total Own Funds (F + L + P)	831,264	815,324

31/12/2013* - Corresponds to Own Funds recomputed in accordance with new regulations (Bank of Italy Circulars 285 and 286 and EU Regulation 575/2013)

Set out below is the capital for supervisory purposes at 31/12/2013 computed in accordance with the previous regulations

TOTAL TIER 1 CAPITAL	750,002
TOTAL TIER 2 CAPITAL	73,319
CAPITAL FOR SUPERVISORY PURPOSES (TIER 3)	823,321

Capital adequacy

Qualitative information

Banco Desio Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 95.36% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.66% and 3.98%, respectively, of Own Funds.

Due to the fact that it is possible to include income for the period in the computation of common equity tier 1 in accordance with the Bank of Italy Circular no. 285 of 17 December 2013 and EU Regulation no. 575/2013, the Board of Directors of the Parent Company has approved:

- the appointment of Deloitte & Touche S.p.A. for the limited audit of the financial statements;

- the dividend policy, setting an upper limit of 40% for the distribution of profits.

For the purpose of prudential supervision regulations, the Board of the Parent Company has also approved the exclusion from Own Funds, as from 1 January 2014, of unrealised gains and losses relating to exposures to central governments classified as “Financial assets available for sale”, thus exercising its right under the “transitional provisions” contained in the Bank of Italy Circular no. 285 of 17 December 2013.

In consideration of the foregoing, this capital structure results in the following ratios:

- CET 1/ risk-weighted assets 12.778%
- T1 / risk-weighted assets 12.867%
- Total Own Funds / risk-weighted assets 13.400%

The Board of Directors of the Parent Company periodically reviews and approves the aggregates that make up Own Funds in order to check their consistency with the risk profile and their adequacy for the Bank's development plans.

Consolidated capital adequacy ratios

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	30.06.2014	**31.12.2013**	**30.06.2014**	**31.12.2013**
A. ASSETS AT RISK				
A.1 CREDIT AND COUNTERPARTY RISK	**10,157,819**	**9,287,849**	**5,532,785**	**5,688,831**
1. STANDARDISED METHODOLOGY	10,157,176	9,287,251	5,532,142	5,688,233
2. METHODOLOGY BASED ON INTERNAL RATINGS				
2.1 Basic				
2.2 Advanced				
3. SECURITISATIONS	643	598	643	598
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**442,623**	**455,106**
B.2 MARKET RISKS			**2,490**	**1,705**
1. STANDARDISED METHODOLOGY			2,490	1,705
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.3 OPERATIONAL RISK			**51,004**	**51,004**
1. BASIC APPROACH			51,004	51,004
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.4 CREDIT VALUATION ADJUSTMENT RISK			163	
1. ADVANCED APPROACH				
2. STANDARDISED APPROACH			163	
3. ORIGINAL EXPOSURES METHOD				
B.5 OTHER EXPOSURES AT RISK			0	0
B.6 OTHER ITEMS			0	
B.7 TOTAL PRECAUTIONARY REQUIREMENTS			**496,280**	**507,815**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**6,203,495**	**6,347,694**
C.2 COMMON EQUITY TIER1 (CET 1/Risk-weighted assets)			12.778%	
C.3 TIER1 (T1/Risk-weighted assets)			12.867%	11.815%
C.4 TOTAL CAPITAL RATIO (Total Own Funds/Risk-weighted assets)			13.400%	12.970%

The amounts in the "31.12.2013" column relating to assets at risk, capital adequacy requirements and capital ratios were computed in accordance with regulations in force at the time

Information on transactions with related parties

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA, as well as to the later section on "Equity-based payments" included in these condensed interim financial statements, with reference to the Group's stock grant plans.

Related party disclosures

The Internal Procedure for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published, in accordance with the said Regulation, on our website www.bancodesio.it - "Banco Desio/Corporate Governance/Banco Desio/Transactions With Related Parties" section.

Pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[1];

b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;

c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group during the period.

With regards thereto, there have been no transactions of note, except for the merger by absorption into the Parent Company of the subsidiary Banco Desio Lazio Spa (a wholly-owned subsidiary) that will be effective from 1 October 2014. Board approval for the proposed merger was given after the Related Party Transactions Committee had unanimously issued a binding favourable opinion in compliance with internal procedures and regulations in force.

The completion of the proposed merger is being coordinated together with the development of the integration plan for Banca Popolare di Spoleto to which will be transferred Banco Desio Lazio's branches (along with Banco Desio's branches in Tuscany).

As regards the liquidation of the subsidiary Brianfid-Lux S.A., on having received approval from the Luxembourg Financial Sector Supervisory Commission (CSSF), a Shareholders' Meeting held on 23 July 2014 approved the closure of the liquidation proceedings and the consequent definitive cancellation of the company.

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[1] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

For further details regarding the foregoing, reference should be made to the paragraph on “Significant events” contained in the interim report on operations.

Transactions with related parties are generally adjusted at market conditions or, where an appropriate reference to the market is not feasible (as in the case of Agreements for outsourcing services provided by the Parent Company to the subsidiaries), at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case that the company is interested in carrying out the transactions.

In this context, there are no transactions outstanding at 30 June 2014 that present particular risk profiles compared with those considered part of the normal course of business or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies and other related parties pursuant to art. 53 CBA, as well as with other parties surveyed pursuant to art. 136 CBA, art. 2391 and art. 2391-bis of the Italian Civil Code, highlighting, in particular, the balance of current account relationships of the securities portfolio at the end of the first half of 2014 and, lastly, any relationships for the provision of services or of some other nature.

I - Parent company

At the end of the first half of 2014, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & C. SApA at Banco Desio amounted to Euro 194.9 million, of which Euro 194.2 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

During the half-year, there were no other transactions entered into with this company (under art. 136 CBA by virtue of the positions held in it by certain officers referred to in paragraph III below)

II – Associates

At the end of the first half, an investment was held in Istifid SpA that has increased to 30.93% following the exercise of the pre-emption right on a sale made by another shareholder during the period (this holding is likely to increase further given that a similar transaction is about to take place). By virtue of that investment, Banco Desio is still the shareholder with a relative majority.

Banco Desio's contractual relations with Istifid SpA essentially consist of the provision of corporate services (keeping the shareholders' register, assistance at shareholders' meetings, advice on corporate compliance, etc.), charged at the usual cost for services of this kind.

With regard to banking services provided by Banco Desio to Istifid SpA, at the end of the period payables (to customers) amounted to Euro 90 million, of which Euro 54.2 million relating to securities portfolios; there are no significant payables held by the Company.

Please note that the payable and receivable balances also refer to relationships maintained by Istifid SpA as part of fiduciary mandates granted by third parties

There is also an investment in Chiara Assicurazioni SpA, which was initially controlled by Banco Desio and has since become an associate with a 32.7% stake, following the sale of Banco Desio's controlling interest (which took place on 24 April 2013, effective 1 May 2013).

At the end of the half-year, payables (to customers) amounted to Euro 56.6 million, of which Euro 42.1 million relating to securities portfolios; there are no outstanding payables held by the company, which has been given a credit line of Euro 10,000.

The contractual relationships with Chiara Assicurazioni SpA maintained by Banco Desio and its subsidiary Banco Desio Lazio SpA essentially consist of contracts for the distribution of insurance products in the non-life sector.

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2014 pursuant to arts. 53 and 136 of the CBA, arts. 2391 and 2391-bis of the Civil Code, these were mainly ordinary lending transactions to Officers of the Group and/or parties related to them, in relation to which Officers (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries) have communicated that they are stakeholders of various kinds, by virtue of investments in subsidiaries/associates, positions held and/or other economic and family relations entertained with such parties. These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted by Group banks on 25 outstanding positions at 30 June 2014 amounted to approximately Euro 15.2 million. The related drawdowns amounted to a total of about Euro 13.1 million in loans to customers.

The above computation excludes transactions with *associates* as per point II above.

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 30 June 2014 amounted to Euro 141.7 million in amounts due to customers (including approximately Euro 122.1 million in securities portfolios).

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

(balances at *30.06.2014* in €/million)	*Related parties pursuant to art. 53 CBA* *(other than the parent company and subsidiaries/associates)* (A)	*Other subjects surveyed in accordance with art. 136 CBA, 2391 and 2391-bis of the Civil Code* (B)	TOTAL (A+B)
Lending transactions:			
Amount granted	**4.6**	**10.6**	**15.2**
Amount drawn down	**3.5**	**9.6**	**13.1**
Funding transactions:			
C/c and d/r amount (a)	**10.2**	**9.4**	**19.6**
Amount of securities portfolios (b)	**113.2**	**8.9**	**122, 1**
Total (a+b)	**123, 4**	**18.3**	**141.7**

* * *

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

Equity-based payments

Stock grant plan for shares of the Parent Company

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving the free allocation of ordinary shares of the Company in favour of Management of the Banco Desio Group, approved by the Ordinary Shareholders' Meeting of 29 November 2011, note that the bonus system in which this Plan operated was revised by Board resolution on 19 December 2013; please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA.

Segment reporting

This information has as its point of reference the organisational and management structure of the Group and the internal reporting
system, on the basis of which management monitors the trend in results and makes the operational
decisions about the resources to be allocated.

The Group operates by carrying out traditional banking activities, providing asset management services and selling life and non-life
bancassurance products. In this context, the segment information reflects the fact that the
operational structure of the commercial banks is not split into segments or divisions.
This chapter summarises the results of the Group's segments described below:

- *commercial bank:* this includes the activities geared to customers relating to the traditional banking operations and activities on the securities portfolio and the market. It also includes services, which are transversal activities carried out to support operations to ensure production efficiency and organisational consistency.
- *asset management*: this includes the activities carried out by the subsidiary Rovere SA;
- *assets in liquidation/held for sale*: this includes the results of Brianfid S.A. and Banca Credito Privato Commerciale S.A.

The income statement and balance sheet figures by sector agree with the respective captions in the financial statements. Moreover,
for each segment, we also provide the main balance sheet aggregates and figures for indirect deposits (under administration and management).

Income statement	30.06.2014	Commercial bank	Asset MNG	Assets held for sale/in liquidation
Net profit from financial and insurance activities (1)	220,905	216,898	1,655	2,352
Fixed costs (2)	(117,812)	(114,915)	(344)	(2,553)
Provisions and adjustments (3)	(54,933)	(56,866)		1,933
Profit (loss) from equity investments carried at equity	557	557		
Gains (losses) on disposal of investments				
Profit (loss) from current operations before tax	**48,717**	**45,674**	**1,311**	**1,732**

(1) including other operating charges/income
(2) administrative costs, net adjustments to property, plant and equipment
and intangible assets
(3) Net impairment adjustments to loans and financial assets, provisions for risks and charges,
goodwill

Balance sheet	30.06.2014	Commercial bank	Asset MNG	Assets held for sale/in liquidation
Financial assets	1,270,711	1,270,711		
Due from banks	513,119	461,105	1,392	50,622
Loans to customers	7,485,504	7,485,424	80	
Due to banks	471,229	471,229		
Due to customers	5,892,509	5,892,070		439
Debt securities in issue	2,086,249	2,086,249		

Indirect deposits, under administration and management	11,004,965	10,950,412	54,553	

Income statement	30.06.2013	Commercial bank	Asset MNG	Assets held for sale/in liquidation
Net profit from financial and insurance activities (1)	191,964	188,216	1,688	2,061
Fixed costs (2)	(131,219)	(126,137)	(421)	(4,661)
Provisions and adjustments (3)	(73,190)	(73,510)		320
Profit (loss) from equity investments carried at equity	12,164	12,164		
Gains (losses) on disposal of investments				
Profit (loss) from current operations before tax	**(281)**	**733**	**1,267**	**(2,280)**

(1) including other operating charges/income
(2) administrative costs, net adjustments to property, plant and equipment and intangible assets
(3) Net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	30.06.2014	Commercial bank	Asset MNG	Assets held for sale/in liquidation
Financial assets	1,543,517	1,542,690		827
Due from banks	230,882	165,614	1,367	63,901
Loans to customers	8,825,499	6,825,090		400
Due to banks	436,969	436,969		
Due to customers	5,263,685	5,249,296		14,389
Debt securities in issue	2,261,715	2,261,715		
Indirect deposits, under administration and management	10,469,231	10,371,910	78,377	18,944

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REVIEW REPORT ON THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
BANCO DI DESIO E DELLA BRIANZA S.p.A.

1. We have reviewed the half-year condensed consolidated financial statements of Banco di Desio e della Brianza S.p.A. and subsidiaries (the "Banco Desio Group"), which comprise the balance sheet as of June 30, 2014, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and the related explanatory notes. Banco di Desio e della Brianza S.p.A.'s Directors are responsible for the preparation and presentation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue a report on these half-year condensed consolidated financial statements based on our review.

2. We conducted our review in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-year interim financial statements under Resolution No. 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike a report on the year-end consolidated financial statements, we do not express an audit opinion on the half-year condensed consolidated financial statements.

   With regard to the comparative figures related to the year ended December 31, 2013 and to the six-month period ended June 30, 2013, presented in the half-year condensed consolidated financial statements, reference should be made respectively to our auditors' report dated April 4, 2014 and our auditors' review report dated August 12, 2013.

3. Based on our review, nothing has come to our attention that causes us to believe that the half-year condensed consolidated financial statements of Banco Desio Group as of June 30, 2014 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
August 11, 2014

This report has been translated into the English language solely for the convenience of international readers.