Report on operations and consolidated financial statements as at 31 December 2016

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Banco di Desio e della Brianza S.p.A. - Share capital Euro 67,705,040.00 fully paid - Head office in Desio, via Rovagnati, 1 Registered in the Monza Brianza Companies Register - Tax Code 01181770155 - Member of the Interbank Deposit Protection Fund


Banco Desio
Banca Popolare di Spoleto
Fides

Gruppo Banco Desio

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Gruppo Banco Desio

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Gruppo Banco Desio

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 Camagni (*)
Senior Deputy General Manager	Mauro Walter Colombo (**)
Deputy General Manager "Corporate Affairs"	Maurizio Ballabio (***)

* *from 4 May 2016*
** *from 27 April 2016*
*** from 18 July 2016

Financial Reporting Manager as per art. 154-bis CFA

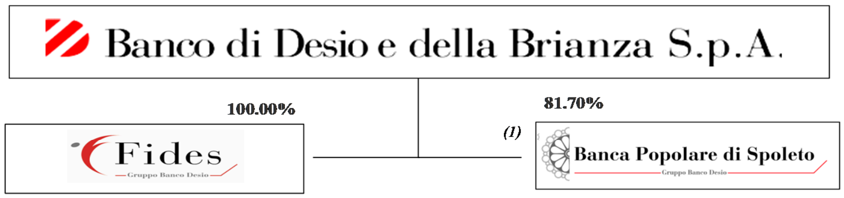
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2016 includes the following companies:



(1) This holding may decrease to 76.31% by 30.06.2017 if there is a future subscription for Conversion Shares by the owners of ordinary shares of Banca Popolare di Spoleto S.p.A., other than the Parent Company, as a result of them exercising the Warrants allocated to them;

Credito Privato Commerciale S.A., a Swiss company in liquidation, and Rovere Societé de Gestion S.A., a Luxembourg company in liquidation, were deleted from the Bank of Italy's list of members of Banking Groups during the year. Previously, they were respectively 100% and 80% subsidiaries of the Parent Company. They were deleted from the List of Banking Groups following loss of control, a defined by IFRS 10, due to the substantial completion of the related liquidation processes and consequent deconsolidation of the equity investments.

Consolidated Report on Operations

Introduction

The figures and ratios included in this *Consolidated Report on Operations*, as well as the comments on the composition of the captions and the related changes, where due, refer to the balance sheet included in the consolidated financial statements and to the Consolidated reclassified income statement, as disclosed in the appropriate paragraph, that, in turn has been prepared from the Consolidated financial statements.

Following the resolutions of the Parent Company's Board of Directors with reference to the programme for disposal of the equity investments held in the subsidiary Rovere Societé de Gestion S.A. and the associate Istifid S.p.A., in accordance with IFRS 5 the Company has reclassified the balance sheet items at 31 December 2015 relating to the assets and liabilities of these companies to "150 - Non-current assets and disposal groups held for sale" and "90 - Liabilities associated held for sale".

1 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Total assets	12,365,903	12,248,130	117,773	1.0%
Financial assets	1,870,808	1,901,770	-30,962	-1.6%
Due from banks	112,838	292,992	-180,154	-61.5%
Loans to customers	9,720,108	9,386,311	333,797	3.6%
Property, plant and equipment	181,201	184,983	-3,782	-2.0%
Intangible assets	17,843	18,207	-364	-2.0%
Due to banks	962,245	753,115	209,130	27.8%
Due to customers	8,729,591	8,244,110	485,481	5.9%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,409,792	1,940,932	-531,140	-27.4%
Shareholders' equity (including Net profit/loss for the period) [1]	868,120	870,449	-2,329	-0.3%
Own Funds	1,084,987	1,106,070	-21,083	-1.9%
Total indirect deposits	13,474,129	12,310,102	1,164,027	9.5%
of which: Indirect deposits from ordinary customers	*8,415,302*	*8,343,925*	*71,377*	*0.9%*
of which: Indirect deposits from institutional customers	*5,058,827*	*3,966,177*	*1,092,650*	*27.5%*

Income statement [2]

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Operating income	422,006	470,789	-48,783	-10.4%
of which: Net interest income	*236,192*	*261,535*	*-25,343*	*-9.7%*
Operating costs	275,224	278,561	-3,337	-1.2%
Result of operations	146,782	192,228	-45,446	-23.6%
Profit (loss) from operations after tax	37,807	32,557	5,250	16.1%
Non-recurring profit (loss) after tax	-12,270	5,041	-17,311	n.s.
Net profit for the period [1]	25,551	38,172	-12,621	-33.1%

[1] *pertaining to the Parent Company;*

[2] *from the Reclassified income statement.*

Key figures and ratios

	31.12.2016	31.12.2015	Change amount
Capital/Total assets	7.0%	7.1%	-0.1%
Capital/Loans to customers	8.9%	9.3%	-0.4%
Capital/Due to customers	9.9%	10.6%	-0.7%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	61.6%	44.8%	16.8%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	10.9%	10.8%	0.1%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)*	11.0%	11.0%	0.0%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.5%	13.9%	-0.4%
Financial assets/Total assets	15.1%	15.5%	-0.4%
Due from banks/Total assets	0.9%	2.4%	-1.5%
Loans to customers/Total assets	78.6%	76.6%	2.0%
Loans to customers/Direct customer deposits	95.9%	92.2%	3.7%
Due to banks/Total assets	7.8%	6.1%	1.7%
Due to customers/Total assets	70.6%	67.3%	3.3%
Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets	11.4%	15.8%	-4.4%
Direct customer deposits/Total assets	82.0%	83.2%	-1.2%

	31.12.2016	31.12.2015	Change amount
Cost/Income ratio	65.2%	59.2%	6.0%
Net interest income/Operating income	56.0%	55.6%	0.4%
Result of operations/Operating income	34.8%	40.8%	-6.0%
Profit (loss) from operations after tax/Capital [(3)]	4.5%	3.9%	0.6%
Profit (loss) from operations after tax/Capital [(3)] (R.O.E.)	3.0%	4.6%	-1.6%
Profit (loss) from operations before tax/Total assets (ROA)	0.4%	0.3%	0.1%

	31.12.2016	31.12.2015	Change amount
Net doubtful loans/Loans to customers	4.9%	4.7%	0.2%
Net non-performing loans/Loans to customers	9.4%	9.6%	-0.3%
% Coverage of doubtful loans	56.3%	58.5%	-2.1%
% Coverage of doubtful loans, gross of cancellations [(4)]	60.9%	64.2%	-3.3%
% Total coverage of non-performing loans [(4)]	46.2%	47.5%	-1.3%
% Coverage of non-performing loans, gross of cancellations [(4)]	50.0%	52.2%	-2.2%
% Coverage of performing loans	0.54%	0.67%	-0.14%

Structure and productivity ratios

	31.12.2016	31.12.2015	Change amount	Change %
Number of employees	2,356	2,371	-15	-0.6%
Number of branches	271	275	-4	-1.5%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(5)]	4,113	3,875	238	6.1%
Direct deposits from customers per employee [(5)]	4,290	4,204	86	2.0%

	31.12.2016	31.12.2015	Change amount	Change %
Operating income per employee [(5)]	179	194	-15	-7.7%
Result of operations per employee [(5)]	62	79	-17	-21.5%

[(3)] *net of the profit (loss) for the period;*

[(4)] *also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., shown gross of write-downs;*

[(5)] *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 - Underlying scenario

2.1 - The macroeconomic scenario

International scenario

There were many fears about the strength of the economic recovery at the start of 2016, both globally and for the related effects on the European economies and on Italy, in particular. Given the steady easing of these fears and the confirmation of stronger growth, the outlook from the summer was dominated by the consequences of the political decisions - largely unexpected - made by British, American and Italian voters. Not forgetting those to be made next year by the Dutch, French and German voters, or the prospects for the current Italian legislature.

Against this background, the international economy continued to show signs of a slowdown in the second half of 2016. World trade is currently growing at an annual rate of about 1% (+2% at the end of 2015), while the rise in industrial production is gradually easing to 1.4% y/y (from +1.7% at the end of 2015).

With regard to the principal emerging countries, growth in China has stabilised at around 6.7% y/y while India continues to expand at an annual rate in excess of 7%; on the other hand, Brazil is faced with a severe and prolonged recession and Russia has recorded six quarters of economic contraction.

Turning to the advanced economies, growth in the United States lost the buoyancy experienced in 2015 due to a poor first quarter. Japan has still not found incisive solutions to its long-term problems, while the upturn in the Euro area is not quite as strong as it was that the end of last year.

After the stop experienced during the second quarter, Italian growth during the third quarter of 2016 matched the progress seen at the start of the year (+1% y/y) and is positioned above the medium-term trend line. This said, the OECD leading indicator still flags caution for short-term future of the Italian economy. While the growth path is modest, the gap between actual GDP and the potential rate is narrowing (from -4.1% at the end of 2013 to the current -1.8%) and confirms the economic recovery in progress.

United States

GDP grew more in the third quarter of 2016 than in the previous quarters (+3.1%, up from +1.4%). This recovery was largely due to private consumption and the contribution made by net exports; this latter performance was mostly attributable to temporary factors, such as the exception flow of agricultural products exported to South America. Specifically, consumption rose by 0.7% (formerly +1.1%), public spending increased 0.1% and exports climbed 2.4% (formerly +0.4%), while investment fell 0.2% (formerly -0.3%). The OECD's leading indicator suggests that prospects for the economy will remain uncertain over the next 6 months. Aside from the exceptional rise in exports, there are no significant signs of a strengthening in the non-housing investment cycle that would alter the prospects for growth: household consumption therefore remains the only solid pillar that steadfastly sustains economic growth, without however replicating the intensity seen in previous recoveries.

The jobs market continues to show signs of a strong upturn: the unemployment rate fell to 4.6% in November. Industrial production slowed in August, while continuing to grow (+1.1% y/y). Consumer prices rose by 1.6% in October (formerly +1.2% in June), which was 10 bps more than in the previous month. Inflation continues to climb towards the Fed target, now that the effect of lower energy prices has been lost. On the other hand, core inflation (excluding non-processed foods and energy products) remains stable compared with earlier readings (+2.2%). On the political front, the Republican victory in the recent presidential elections is expected to lead to a series of expansionary measures over the next four years. These initiatives will reflect fiscal policy for the relaunch of the country, with tax reforms for households and firms, an infrastructure spending plan, the regulation of foreign trade in order to facilitate the growth of US industry and the control of immigration in favour of local employment.

Japan

GDP during the third quarter continued the growth path identified previously, albeit at a slower rate (+0.3%, formerly +0.5%). Once again, the greatest contribution came from the construction sector (+2.6%), where strong expansion has continued to benefit from tax support for the rental market, while sales remain slack. Improvements in wages and employment have allowed consumption (+0.3%) to bolster domestic demand. Household confidence has been broadly stable since the start of the year, but industrial investment has weakened (-0.4%). The high level of productive capacity, the low level of utilisation and pessimism about future demand (with exports stalled on expectations of yen depreciation and uncertainties about the trade policies of the new US administration) continue to impact the growth in capital expenditure. Monetary policy remains ultra-expansive, in an attempt to achieve the 2% inflation target; even so, inflation was modest in October (+0.2%) and the government deferred the planned rise in the consumption tax (from April 2017 to October 2019), thus avoiding its impact on growth at the expense of stressing the public-sector accounts.

Emerging Economies

GDP in Russia improved slightly during the third quarter, but remains in negative territory (-0.4%, formerly -0.5%). The country is still in the grips of a recession; the fall in real wages since the start of the year (-5%) continued in October, as did the decline in retail sales (-4.4%). Industrial production fluctuates between expansion and contraction (-0.3% in October). Looking in more detail, the mining industries continue to grow while manufacturing struggles. Financial conditions and demand levels do not signal an upturn in investment, which continued to decline during the third quarter (-2.3%). The restructuring of the banking and financial sector has generated a modest increase in lending, but a deterioration in its quality due to the difficulties faced by households and firms. After the stagnation seen on 2016, capital flows will depend on relations with the new US administration and the related effects on the exchange rate for the rouble, the cost of borrowing in foreign currencies and foreign trade (sanctions included).

GDP in China was stable in September (+6.7%). Analysis of this growth shows a reduction in the impact of lower net real exports (-0.3%), which offset a slight decrease in the growth of consumption. Investment was stable overall, although with mixed situations: in particular, industrial investment slowed, while investment in services increased. Public spending represented the lion's share once again, with double-digit growth (+20%), while private investment was limited (+2%). Monetary policy remains focused on targeted measures to ensure that the country's economic system has adequate liquidity; the downward pressure on the yuan was not repeated during the year (except at the time of the "Brexit" vote), inflation remains well under control (2%) thanks to fiscal policy that is ready to support domestic demand with government spending.

GDP growth in India remains robust (+7.1%), sustained as ever by private consumption (+7.6%). This expansion was supported by the beneficial effects of the monsoon season, both in terms of prices and availability of agricultural products. The contribution made by foreign trade is unchanged, on the other hand, with the slowdown in export growth - now barely positive - offset by a drop in imports (-9%). Unfortunately, capital investment continued to be weak (-5.9%) due to excess installed production capacity and the difficulty in finding local funding. In fact, monetary policy had to deal with the poor condition of the Indian banking system (with non-performing loans rising and banks having to recapitalise through the public sector and the market); as a result of which access to credit by businesses was shifted to foreign operators, at the expense of unstructured local businesses. After implementing various expansionary measures, the central bank has taken a more careful position for two main reasons: firstly, inflation has exceeded the target rate (4%) and, secondly, the uncertainties about US economic and monetary policies, which will affect the sources and cost of funding for all emerging countries, via changes in exchange rates and the expected flow of investment.

GDP in Brazil fell even further during the third quarter (-0.8%), due to the weakness of internal demand and net exports. After timid signs of a recovery in the second quarter, capital investment also moved back into negative territory (-3.5%). The country is struggling to regain the confidence necessary to pull out from the deepest crisis experienced since the 1990s. The difficulties are linked to the high exposure of private firms to the international markets for loans, as well as to the political uncertainties that slow implementation of the policies needed to stabilise the finances of the public sector. This fragility emerged again after the US presidential elections. After strengthening for 10 months, the Real depreciated in November (-2.9%). Despite these issues, inflation has continued to fall (8.5% in October, from 11.3% at the end of 2015) and the unemployment rate is broadly stable (11.8%).

Europe

The GDP of the Eurozone grew faster in the third quarter than in the second (+1.4%, formerly +1.2%) due to positive contributions from France (+1.0%) and Germany (+0.8%). Overall, all components of GDP contributed positively to this annualised growth; in particular, the largest contribution came from retail sales (+2.5%), followed by manufacturing orders (+1.9%) and industrial production (+0.6%). The economic recovery of the Eurozone remained steady during the third quarter, although the various member countries performed differently. Among the larger countries, growth accelerated in Italy and France (where the recovery had been hindered in previous quarters by such temporary factors as the strikes against the reform of the jobs market); by contrast, slowdowns were experienced in Germany and Spain (this last country remain, in any case, one of the most dynamic economies in the area, despite the political stalemate there for most of the year).

The business confidence index fell in November, while the consumer confidence index improved while still expressing pessimism. With regard to the jobs market, the unemployment rate fell in October (9.8%, formerly 10.1%). Inflation continues at extremely low levels: consumer prices rose by +0.5% (formerly +0.2%) in October, while core inflation was 0.8% (essentially unchanged).

Italy

As already mentioned in relation to the Eurozone, GDP recorded a discrete annual growth (+1.0%, formerly + 0.8%). All components of GDP provided positive contributions to overall growth, with the exception of net exports. Consumption provided the main support for the improvement in economic activity, thanks to the contribution made by households (+0.9%), together with gross fixed capital formation (+0.4%). Net foreign demand, however, made a negative contribution (-0.2%) due to the slowdown in the economies of the emerging countries.

The October seasonally adjusted index of industrial production was higher (+1.1% y/y) and the calendar-adjusted indices reflected increases in almost all groupings: energy (+6.1%), operating assets (+2.1%) and intermediate goods (+0.3%), while consumer goods were essentially unchanged. New orders were up in September (+2.6% y/y), while retail sales were broadly flat. The consumer confidence index was slightly lower in November, while the business confidence index was higher. With regard to the jobs market in October, the unemployment rate was slightly worse (11.6%, formerly 11.4%), but that of young people declined (36.4%, formerly 39.2%). The harmonised index of consumer prices remains particularly low (-0.2% in October, formerly -0.1%), in line with core inflation (+0.3%, formerly 0.5%). Developments during the fourth quarter of 2016 suggest a further improvement in economic activity. This trend means that 2016 should close with faster GDP growth (+0.9%) than in 2015 (+0.7%).

2.2 - Capital markets and the banking system in Italy

Financial and monetary markets

June saw the start of the TLTRO II programme (4 auctions) with a duration of 4 years and a negative rate equal to the deposit rate (-0.40%). The ECB kept the policy rates unchanged in December (reference rate of zero, -0.40% on deposits). The expanded and extended bond purchase plan will continue, if necessary, beyond the deadline (March 2017) and, in any case, until there is a sustained rise in inflation close to its declared target (+2%). By contrast, following the rate rise at the end of 2015 (in a range between 0.25% and 0.50%), the Fed announced a further rise of 0.25 points: the new range is therefore between 0.50% and 0.75%. Over the coming year, the US central bank expects to make further increases, to arrive at 1.40% within twelve months.

In the first ten days of December, 3-month Euribor is still in negative territory (-0.31%); by contrast, the 10-year IRS rate is 0.75%, down 19 bps since December (0.94%), but up with respect to the other readings during 2016.

In the bond markets, the 10-year benchmark rates recovered in the USA (2.15%, from 1.76% in September) and in the Eurozone; specifically, the German benchmark rate was 0.16% (from -0.03% in September), while the Italian rate was 1.94% (from 1.46% in September). The spread between the ten-year yields on Italian and German government bonds was affected by the market volatility caused by the Italian constitutional referendum, touching 198 bps (formerly 150 bps in September), before declining to around 160 by year end.

International share prices fluctuated on a monthly and year-on-year basis in November. The Dow Jones Euro Stoxx index fell by -1.1% m/m (-4.8% y/y), the Standard & Poor's 500 index rose by +3.1% (+8.7% y/y) and the Nikkei 225 index climbed by +6.1% (-2.2% y/y). The major European stock market indices improved during the month; the FTSE Mib index rose by +8.3% (-16.5% y/y); in France, the Cac40 index grew by +3.9% (+0.4% y/y) and, in Germany, the Dax30 index increased by +2.4% (+2.6% y/y).

With reference to the main banking indices, the indicators substantially maintained the monthly and annual trends of the principal stock market indices; the Italian FTSE Banks rose by +10.0% m/m (-41.7% y/y), the Dow Jones Euro Stoxx Banks by +8.1% m/m (-12.7% y/y) and the S&P 500 Banks rose by +11.5% m/m (-18.9% y/y).

Banking markets

In November, the annual trend in deposits from resident customers worsened compared with that reported at the end of 2015 (-0.8%, formerly -0.6%). As reported previously, the annual trend in deposits continues to be positive (+4.4%), whereas bonds reflect strong contraction (-18%). A review of the different components shows clear differentiation between the short-term and medium/long-term sources. Deposits from resident customers (net of central counterparties) grew at 4.4% p.a. in November, while bonds continued the major contraction experienced since 2014; deposits from abroad inverted the growth trend reported in previous quarters (-5.0%, +3.1% at the end of 2015). The average remuneration of bank deposits was 1.00%, having decreased further since the end of 2015 (1.19%). The interest rate on the euro deposits of households and non-financial companies was 0.41% (0.53% at the end of 2015), the rate on bonds was 2.75% (formerly 2.94%) and the rate on repurchase agreements was 1.16% (0.91% at the end of 2015).

In November, the annualised rate of bank lending to households and non-financial companies (recalculated to include securitised/assigned loans not reported in bank balance sheets) inverted the trend reported at the end of 2015 (+0.7%, formerly -0.4%). In October, loans to households grew by +1.6% y/y (+0.8% at the end of 2015), as did those to companies (+0.5%, formerly -0.2%).

Overall, lending during the third quarter of 2016 was again influenced by the trend in capital investment (+3.1%) and by the performance of economic cycle; in November, gross non-performing loans rose m/m to 11.9% of total lending (formerly 10.4% at the end of 2015). The ratio of net non-performing loans/total net loans was 4.8% (4.9% at the end of 2015). The latest-available Cerved data (June 2016) reports a decline in business bankruptcies (-2.8% y/y), almost returning to the levels seen in 2013.

Interest rates on new loans have remained low; the rate on home purchase loans to households was 2.06% (2.51% at the end of 2015). In May, fixed-rate loans accounted for 74.4% of the total (formerly 66.0% at the end of 2015). The rate on new loans to non-financial companies fell to 1.67% (from 1.99% at the end of 2015). Overall, the weighted-average rate on total loans to households and non-financial companies was 2.90% in November (formerly 3.26% at the end of 2015) and, again in November, the spread between the average lending and funding rates was 1.90%, down further compared with previous reports (formerly 2.07% at the end of 2015) and even further from the pre-crisis spread (3.29% at the end of 2007).

3 – Regional market presence and corporate issues

3.1 - The distribution network

The Group's distribution network at 31 December 2016 consists of 271 branches, including 149 in the Parent Company Banco di Desio e della Brianza and 122 of Banca Popolare di Spoleto.

In recent years, the distribution network, which gives top priority to customer relationships, underwent expansion into adjacent and complementary areas. This was aimed at markets where the Group has its roots, as well as other local opportunities, with the result that the Group increased its presence especially in Lombardy, having extended it also into Emilia, Piedmont, Liguria, Veneto, Tuscany and Lazio and now, thanks to Banca Popolare di Spoleto, into Umbria, Marche and Abruzzo as well.

From 1 February 2017, the distribution network of the Parent Company comprises eight territorial areas (seven previously) in Emilia, Piedmont, Liguria and Veneto, each supervised by an Area Manager and supported by the following roles:

- *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 Corporate Affairs and as communicated by the Sales Department for an effective organisation of each sales campaign;

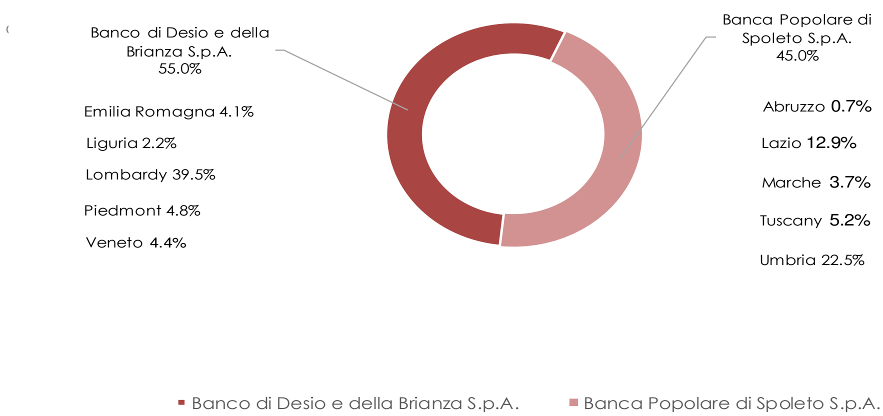
Banca Popolare di Spoleto has a similar structure to that of the Parent Company, also being organised into territorial area in Tuscany, Lazio, Umbria, Marche and Abruzzo.

As part of work to rationalise and improve the efficiency of the distribution network:

- in June, Banca Popolare di Spoleto closed four branches in Sferracavallo, near Orvieto (TR), San Secondo, Città di Castello (PG), Cerreto di Spoleto (PG) and Recanati (MC);
- on 22 December 2016 Banco Desio decided to close four branches in Milan-Mauri, Brembate, Cinisello Lincoln and Desio Volta by 31 March 2017;

The following chart analyses by region the companies included in the distribution network at 31 December 2016.

Chart no. 1 - **BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK BY BANK AND REGION**



3.2 - Significant events

General Management

On 27 April 2016, the Board of Directors of the Parent Company approved the hiring of Luciano Camagni and his appointment as General Manager with effect from 4 May 2016.

Luciano Camagni replaced Luciano Colombini, to whom the Board of Directors wishes to express heartfelt thanks for the work he has performed and the results achieved despite a particularly severe market environment.

The professional profile of Luciano Camagni is characterised by extensive experience in banking and finance gained in senior positions at leading banks.

The Board also appointed a second Deputy General Manager, Mauro Walter Colombo, who holds the position of Financial Reporting Manager as well.

On 18 July 2016, Maurizio Ballabio, formerly Deputy General Manager of Corporate Affairs of Banca Popolare di Spoleto, was appointed to the same position at the Parent Company. At the same time, Ippolito Fabris was appointed Deputy General Manager of Corporate Affairs of Banca Popolare di Spoleto; he previously held the same office at the Parent Company.

Directors and officers of Banca Popolare di Spoleto S.p.A. ("BPS")

On 25 February 2016, the Board of Directors of BPS co-opted a new Independent Director, Francesco Quadraccia, following the resignation of Giuseppe Listanti on 11 February 2016 as he had new professional commitments. On 7 April 2016, the Ordinary Shareholders' Meeting confirmed this appointment (which will expire with the approval of the financial statements at 31 December 2016, as for the other Directors and Statutory Auditors).

On 27 April 2016, Luciano Colombini also resigned as Deputy Chairman and member of the Executive Committee of Banca Popolare di Spoleto. On 10 May 2016, the Board of Directors of BPS then proceeded to co-opt a new Director, Luciano Camagni, who took the position of Deputy Chairman and Chairman of the Executive Committee.

Registration document of Banca Popolare di Spoleto S.p.A.

On 27 January 2016, BPS again submitted to Consob the registration document required under applicable law for: i) the re-admission to listing of the shares outstanding at the time of the Extraordinary Administration and of those subsequently issued and of the warrants; ii) the issue of own bonds. On the same date, BPS also filed with Consob its Base Prospectus so that it can start issuing bonds again. Following further requests from Consob to supplement the documentation already filed, the subsidiary filed the appropriate updates to the Registration Document and the Base Prospectus (also following the approval of the financial statements at 31 December 2015 and the interim report at 31 March 2016). The approval process of the Registration Document was completed on 15 June 2016 when Consob issued its approval.

In a letter dated 23 May 2016, Borsa Italiana S.p.A. ("Borsa") asked if Banca Popolare di Spoleto intended to take the steps necessary in order to relist its shares, including specification of the method and timing, or if it had decided not to proceed given the fact that, for Borsa, the condition for re-admission - being a float of at least 10% of the share capital - were not met

On 29 June 2016, Banca Popolare di Spoleto replied by letter to Borsa Italiana S.p.A. saying that it was not in a position to take any initiatives to reconstitute the required float. However, it also pointed out that while looking for ways to achieve the re-admission of BPS's shares to trading, the Parent Company Banco di Desio e della Brianza S.p.A. had assured its commitment to place directly on the market a sufficient number of BPS shares to replenish the minimum float, once the appropriate authorisation had been received and over a period of around six months (so as not to directly influence the market price). This quantity is equal to about 0.7% of the number of shares issued and outstanding, i.e. around 1,111,147 shares. In any case, it also pointed out that effective implementation of this approach could not fail to take account of the restrictions caused by current uncertainties due to the economic and financial environment.

On 20 October 2016 Borsa Italiana S.p.A. notified the start of the procedure to revoke the listing of the shares issued by Banca Popolare di Spoleto.

Administrative proceedings relating to MEF Decrees

On 29 February 2016 the two judgements were filed in which the Council of State rejected the appeals filed by some former Representatives of BPS and the former Parent Company Spoleto Credito e Servizi Soc. Coop., in compliance with the judgements of the same Council of 9 and 26 February 2015 (concerning the dissolution of the administration and control bodies of the two companies and their submission to the extraordinary administration procedure arranged with the MEF Decrees of February 2013); it has therefore established that there was no violation or circumvention of the judgement by the MEF. A number of appeals presented at the same time for alleged substantive defects of the same MEF Decrees of April 2015 subject to the judgement of compliance are still pending before the Regional Administrative Court of Lazio. As an interested party, albeit not directly involved, Banca Popolare di Spoleto has decided to participate in these appeals in order to safeguard its interests.

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

The Annual Shareholders' Meeting of BPS was held on 7 April 2016; among other things, it made a number of decisions regarding the action for damages against former corporate officers: i) confirmation of the action for damages already taken by the Commissioners; ii) extension of the action for damages against the former Statutory Auditors; iii) decision to act as a civil party in the criminal proceedings before the Court of Spoleto (General Crime Reports sub number 649/2011).

Fides S.p.A.

The Ordinary Shareholders' Meeting of the subsidiary Fides S.p.A. was held on 12 April 2016; among other things, it approved renewal of the corporate bodies (one year for the Board of Directors and three years for the Board of Statutory Auditors, as required by law).

The formalities begun on 8 October 2015 to register the subsidiary in the Single Register of Financial Intermediaries as per current art. 106 of the CBA were completed on 6 April 2016.

On 15 November 2016 the Bank of Italy began a general inspection of the subsidiary that was completed recently, so the company now awaits the audit report.

In January 2017, ENASARCO carried out inspections to check compliance with the obligations regarding the payment of pension contributions for the network of agents during the period from 20 November 2011 to 20 February 2016; the final inspection report issued on 18 January 2017 confirmed that the company has complied with these obligations.

Credito Privato Commerciale S.A. in liquidation ("CPC")

After the events that took place on 31 December 2015, with the substantial completion of the liquidation of CPC, from 1 January 2016, the Parent Company treated the investment in CPC as completely eliminated following loss of control, even though the capital and reserves would be distributed at a later date.

In its separate financial statements, the Parent Company (1) eliminated the book value of the subsidiary from caption "100 – Equity investments", at the same time recognising a receivable from the liquidators, considered virtually certain and recoverable, under caption "150 – Other assets" and (2) recognised a Profit from equity investments of Euro 4,169 thousand, equal to the difference between the receivable from the liquidators and the value of the equity investment eliminated, net of the estimated future charges for the cancellation of the company.

In the consolidated income statement, the effects of this transaction, in addition to the net gain of Euro 4,169 thousand recognised under caption "240. Profit (loss) from equity investments", include income shown under the same caption of Euro 1,085 thousand relating to the reversal of future charges set aside in the consolidated financial statements at 31 December 2015; this positive result of Euro 5,254 thousand therefore represents the final effect for the Banco Desio Group of the liquidation of the former Swiss subsidiary, compared with the original plan of the liquidators; the Group structure had already changed, however, as of 1 January 2016, with the elimination of CPC from the scope of consolidation.

On 29 June 2016, the Swiss Supervisory Authority (FINMA) issued the measure that released the company from banking supervision and, on 4 August 2016, the Extraordinary Shareholders' Meeting of CPC authorised certain amendments to its Articles of Association to remove, among other matters, all clauses regarding membership of the Banco Desio Group. On 17 August 2016, the company was deleted from the Bank of Italy's list of members of Banking Groups.

Following the measure issued by FINMA, CPC was also put in a position to distribute most of its equity capital; after the amendments of the Articles of Association, the liquidators therefore arranged to distribute to the Parent Company reserves totalling 38.4 million euro, so that the shareholders' equity di CPC now amounts to 11.6 million euro, mostly represented by share capital.

The residual liquidation activities continue for the sole purpose of achieving the company's cancellation from the commercial register in the shortest time possible.

Rovere Societé de Gestion S.A. in liquidation ("Rovere")

The absorption of Rovere Sicav's nine sub-funds by the same number of Italian-based funds managed by AcomeA SGR S.p.A. was completed on 29 January 2016. Following the above merger, Rovere ceased operations and the procedure for its disposal and liquidation in the shortest time possible was initiated.

Given that no opportunities arose to sell the equity investment, on 6 June 2016 Rovere's Shareholders' Meeting decided that it should be liquidated. Accordingly, on 29 June 2016, the Luxembourg Supervisory Authority (CSSF - Commission de Surveillance du Secteur Financier) issued the measure to remove (strike off) the company from the official list of authorised fund managers.

On 26 September 2016, the Extraordinary Shareholders' Meeting of Rovere authorised a number of amendments to its Articles of Association, including deletion of all the clauses referring to its membership of the Banco Desio Group. With effect from 11 October 2016, the company was deleted from the Bank of Italy's list of members of Banking Groups.

Because of these events, Banco di Desio e della Brianza considered its investment in Rovere to have been definitively eliminated due to loss of control; the Bank therefore took steps in its separate financial statements to derecognise the investment, at the same time recording in caption "150 - Other assets" a receivable from the liquidator of the amount considered certain and recoverable, net of estimated charges for the company's cancellation from the commercial register.

In December 2016, the Liquidator essentially confirmed the liquidation plan for the company that was defined back in July; the liquidation activities continue for the sole purpose of achieving the company's cancellation from the commercial register in the shortest time possible.

Istifid S.p.A.

On 11 January 2016, given the evolutions in the sector where Istifid S.p.A. operates, characterised by increasing concentration, the Board of Directors of the Parent Company agreed to continue negotiations to sell its investment in this product company. On 13 April 2016, Banco Desio, Credito Valtellinese S.C. and Canova Investissements S.r.l. signed a preliminary agreement for the sale of their entire investment in Istifid S.p.A. to Unione Fiduciaria S.p.A., which was completed on 2 May 2016. Following the completion of the price adjustment procedure on 27 July 2016, this operation resulted in recognition in the consolidated financial statements of a disposal loss of Euro 0.3 million, compared with the disposal gain of Euro 1.1 million recorded in the separate financial statements.

Part of the disposal proceeds, Euro 0.48 million, has been reinvested in the shares of Unione Fiduciaria S.p.A. (percentage ownership: 1.394%).

Chiara Assicurazioni S.p.A.

On 23 December 2016, new commercial partnership agreements were signed with the Helvetia insurance group in relation to the "non-life" business. Under these agreements, Helvetia Compagnia Svizzera di Assicurazioni S.A. acquired the residual equity interests (about 47% in total) held by Banco Desio and the other partner banks in Chiara Assicurazioni S.p.A., a "non-life" insurer, in order to obtain 100% of its share capital. The sale of this residual interest (32.66%) for Euro 15.1 million resulted in the recognition of a disposal gain of Euro 2.2 million in the consolidated financial statements. As part of these agreements, a price adjustment of Euro 0.4 million was also determined in relation to the earlier disposal of 34% of Chiara Assicurazioni S.p.A. on 24 April 2013, which was also recognised as income from the disposal of equity investments. Among other elements, the agreements extend for an additional 10 years the commercial partnership for the distribution of "non-life" products (without exclusivity).

Spoleto Mortgages 2003: early close-out of the securitisation

The securitisation arranged by Banca Popolare di Spoleto in 2003, via the formation of "Spoleto Mortgages S.r.l.", a special-purpose vehicle, was closed during the first quarter of the year. Banca Popolare di Spoleto repurchased the portfolio of outstanding loans, together with the interest and all ancillary rights; BPS's obligation for the selling price was partly offset by the deferred amount due to BPS for excess spread of Euro 3.9 million. BPS recorded a gain of Euro 1.1 million on this buy-back.

General inspection of the Banco Desio Group by the Bank of Italy

A general inspection of the Banco Desio Group began on 14 September 2015 and was completed on 24 December 2015. The inspection report containing "partially favourable" findings was delivered to the Board of Directors of the Parent Company on 10 March 2016. This outcome, which is considered positive, did not result in any disciplinary proceedings.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Consistent with IFRIC 21, the Banco Desio Group made the following entries when the "obligating event" occurred:

- standard contribution to the SRM of about Euro 3.8 million gross (Euro 2.9 million for Banco Desio and Euro 0.9 million for Banca Popolare di Spoleto). The contribution was paid in June;
- standard contribution to the DGS of about Euro 3.4 million gross (Euro 2.1 million for Banco Desio and Euro 1.3 million for Banca Popolare di Spoleto). The contribution was paid in December.

On 28 December 2016, the Bank of Italy notified the Parent Company that the SRM needed additional financial resources and, accordingly, called the two additional annual contributions envisaged for 2016 by Law 208/2015 (the "additional contributions"), reserving the right to review this decision and to determine the basis and timing for payment of the contributions, as envisaged in Decree 237/2016, which has not yet been converted into law.

As indicated in the Bank of Italy communication dated 25 January 2017 regarding these additional contributions, the previous notification satisfies the condition required by IFRIC 21 for recognising the existence of an obligating event and, therefore, the liability to pay the levy. Accordingly, income statement caption 180.b "Other administrative costs" was charged with Euro 7.6 million (Euro 5.7 million for Banco Desio and Euro 1.9 million for Banca Popolare di Spoleto), consistent with the accounting treatment of the contributions to the SRM indicated in the Bank of Italy communicated dated 19 January 2016.

Voluntary scheme ("SVI") of the Interbank Deposit Protection Fund (FITD)

In November 2015, a Voluntary Scheme was established as part of the Interbank Deposit Protection Fund in order to support banks that are insolvent or at risk of insolvency.

On 28 April 2016, the FITD Voluntary Scheme provided support for Banca Tercas amounting to the contribution returned by that bank to the FITD. For the Parent Company alone, this led to the return of the contribution previously paid for Euro 1,571 thousand (recorded as income in Caption 130d) Net impairment adjustments to other financial transactions) and the simultaneous payment of a contribution to the Voluntary Scheme for Euro 1,576 thousand (recorded under caption 150b) Other administrative costs).

After the support for Banca Tercas, the General Meeting of the FITD Voluntary Intervention Scheme held on 17 June 2016 resolved to increase the financial framework for future support to Euro 700 million (additional to that already provided to Banca Tercas). On 16 September 2016 the Voluntary Scheme asked the member banks for a total contribution of Euro 281 million, with a view to subscribing for CaRiCesena's reserved increase in capital of Euro 280 million (plus Euro 1.0 million for operating expenses).

Having regard for the specific objectives of the Voluntary Scheme and in view of the communication from the Bank of Italy indicating the appropriate accounting treatment, the total contributions of Euro 2.2 million paid by the Banco Desio Group towards the above capital increase, being Euro 1.3 million for Banco Desio and Euro 0.9 million for Banca Popolare di Spoleto, were recognised as equity instruments among the AFS assets and measured at the reporting date with reference to the new fair value indicated by the Voluntary Scheme on 20 January 2017. Measurement at the reporting date resulted in the recognition of an impairment of Euro 0.5 million.

Considering the financial resources that may be called by the Voluntary Scheme for future support, a commitments have been recorded amounting to Euro 2.0 million for Banco Desio and Euro 1.3 million for Banca Popolare di Spoleto.

Fondo Atlante

On 27 April 2016, the Parent Company's Board of Directors authorised a Euro 7 million investment in "Fondo Atlante", of which Euro 4.2 million was already called up at 31 December 2016. This is a closed-end AIF ("on call"), reserved for institutional investors, which aims to make a "system" intervention in the Italian market as an investment portfolio, targeting:

- Italian banks with increases in capital already announced to the market (Banca Popolare di Vicenza and Veneto Banca) and other Italian banks with recapitalisations aimed at ensuring compliance with the conditions established or requested by the supervisory authorities;
- financial instruments issued by one or more entities set up for the purchase of non-performing loans (NPLs) of a number of Italian banks;
- individual investments made in a perspective of economic and financial sustainability of each individual transaction and overall profitability of the portfolio over the medium to long term.

In a letter dated 19 December 2016, the Fund called-up an additional Euro 1.5 million that was paid on 3 January 2017, raising the total invested by the Parent Bank to Euro 5.7 million; both the investment recognised in the AFS portfolio and the commitment to pay the above amount were measured with reference to the information provided by the Fund manager on 31 January 2017 and that available about the prospects of the principal equity investments held by the Fund, applying "look through" measurement logic. As a consequence, an impairment of Euro 2.1 million euro was recognised, gross of tax effect.

Participation in "TLTRO II"

In June, the Group took part in the first "TLTRO II" operation, with which the ECB offered long-term liquidity to banks (with a duration of 4 years) to facilitate access to credit from the private sector and stimulate loans to the real economy. The amount allocated to the Parent Company was Euro 800 million, with simultaneous repayment of the "TLTRO I" loan of Euro 550 million.

Adherence to the A.BA.CO. procedure

An important event during the year was the Group's adherence to the A.BA.CO. procedure (collateralised bank assets) prepared by the Bank of Italy for the management of "eligible" loans with the European Central Bank, i.e. those that are suitable for collateralised funding by the ECB. Following completion of the authorisation process, the facility made available to the Parent Company by the ECB for collateralised loans amounts to Euro 868.4 million at 31 December 2016, of which Euro 800 million euro has been used to participate in the TLTRO II programme.

This has improved the consolidated liquidity position of the Parent Company, with an LCR (Liquidity Coverage Ratio) that exceeds the regulatory requirement from 1 January 2018.

Earthquake related actions

The earthquakes that hit central Italy from 24 August 2016, with settlement activity still being felt, caused significant damage to the villages of Norcia, Cascia, Visso, Preci and Tolentino, in municipalities within the traditional territory of Banca Popolare di Spoleto. In particular, the earthquake in Norcia and Visso at the end of October seriously damaged the branches there, resulting in their closure to the public. In order to maintain essential services for the resident population, BPS has installed prefabricated units for the provision of branch services and ATMs.

These events have had a major impact on the economies of the affected areas; accordingly, Banca Popolare di Spoleto reacted swiftly to customer needs, taking account of the relevant legislation, and also engaged in a series of activities designed to assist the populations concerned.

Immediately after the earthquake on 24 August 2016, the subsidiary recognised Order 388 from the Head of the Department for Civil Protection dated 26 August 2016, and informed residents with damaged property about the opportunity to suspend their mortgage payments, or just their payments of principal, for a period of 12 months under the bilateral moratoriums agreed.

A product to facilitate reconstruction was made available on 12 December 2016 to those affected by the earthquakes, consisting of an interest-free loan of up to Euro 25,000.

Consequent to Decree 189 dated 17 October 2016 (enacted by Law 229 dated 15 December 2016) suspending all payments until 31 December 2016, Banca Popolare di Spoleto contacted all those customers that had not applied for suspension under the earlier bilateral agreements, but who were nevertheless entitled to the deferral of payments.

At the reporting date, a number of initiatives are being consolidated with reference to the most recent legislation; in particular, Decree 244 dated 30 December 2016 further suspended payments until 31 December 2017.

Agreement with the Trade Unions on access to the "Income support solidarity fund"

On 29 November 2016, the Banco Desio Group signed an agreement with the Trade Unions on access to the "Income support solidarity fund" (the "Fund") and on the departure of personnel who reach pensionable age. The agreement includes voluntary access to the Fund for persons who will earn the right to retire by 30 June 2022; the departure of the above persons will be spread between two windows, one on 1 October 2017 and the other on 1 October 2018. Additional measures have been identified to facilitate the departure of employees who earn the right to retire by 31 December 2018. In total, applications have been received from 140 persons (97 at Banco Desio, 41 at Banca Popolare di Spoleto and 2 at Fides). The one-time charge to the payroll costs of the Banco Desio Group is Euro 24.1 million (Euro 16.7 million for Banco Desio, Euro 7.1 million for Banca Popolare di Spoleto and Euro 0.3 million for Fides).

Sale of the non-performing loan (NPL) portfolios

On 23 December 2016, a number of contracts were signed for the sale of unsecured non-performing loan portfolios to specialist intermediaries:

- the Banco Desio portfolio, with a nominal value of about Euro 97.1 million, and the Banca Popolare di Spoleto portfolio, with a nominal value of about Euro 53.6 million, were sold to Creditech S.p.A. for, respectively, about Euro 5.5 million and about Euro 2.8 million;
- an additional Banca Popolare di Spoleto portfolio, with a nominal value of Euro 16.1 million, was sold to Davis&Morgan Merchant Bank S.p.A. for about Euro 0.2 million.

These disposals, which identified further losses of Euro 4.0 million with respect to the estimates made at the end of the prior year, also resulted in the recognition of additional income of about Euro 2.0 million with respect to the carrying amounts of the loans sold. As a result, a net disposal loss of Euro 2.0 million was recorded, gross of tax effect.

Consistent with the guidelines issued by the ECB, the Banco Desio Group has therefore implemented a proactive NPL strategy designed, in part, to improve the efficiency of the collection process and the ratio of impaired loans to total loans to customers, which is already quite low on a consolidated basis. Further sales are scheduled during 2017, adopting the same pro-active strategy for the management of non-performing loans.

4 - Decree 231/2001

With reference to measures implemented concerning the administrative liability of companies for offences committed by their officers and/or employees, in 2004 the Board of Directors of the Parent Company approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law.

The Model 231 of Banca Popolare di Spoleto S.p.A. has been aligned with that of the Parent Company since November 2014.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Decree 231/2001 (a role performed by the Board of Statutory Auditors since 2012) is provided in the Annual Report on Corporate Governance (particularly in paragraph 7), which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

The Model 231 is available on the Group's website, together with the Code of Ethics.

5 - Human resources

5.1 - Management and breakdown of resources

The past year was marked by the reorganisation of the commercial network, with the introduction of "Corporate Managers and Loan Officers" to each Territorial Area from 18 April 2016, with a view to improving supervision of the "business segment". These professional profiles, belonging to the new "Corporate Banking" sector, were identified from among the employees in each Area, while ensuring the continuity of normal branch operations by transfers and the appointment of new branch managers.

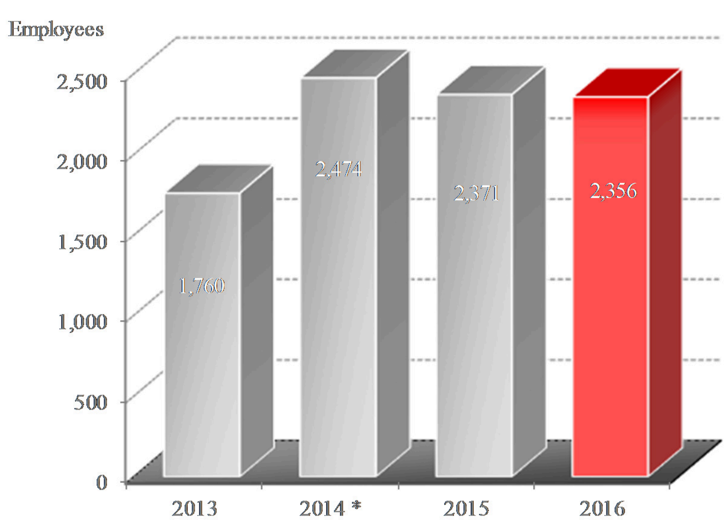
At the same time, work began on the "Skills mapping project" with an initial focus on personnel with branch organisation roles, that will continue in 2017 with reference to the personnel at central offices.

Towards the end of the year, following the above-mentioned agreement reached on 29 November 2016 between BDB, BPS, FIDES and the Trade Unions, a plan was activated for voluntary access to the "Solidarity Fund" by a total of 140 persons (including 18 who will retire directly by 31 December 2018), spread between the two "windows" identified on 1 October 2017 and 1 October 2018.

At 31 December 2016, the Group had 2,356 employees, a decrease of 15 (-0.6%) compared to the end of the prior year.

The trend in the Group's workforce in recent years is shown by the chart below.

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



*Banca Popolare di Spoleto became part of Banco Desio Group in 2014

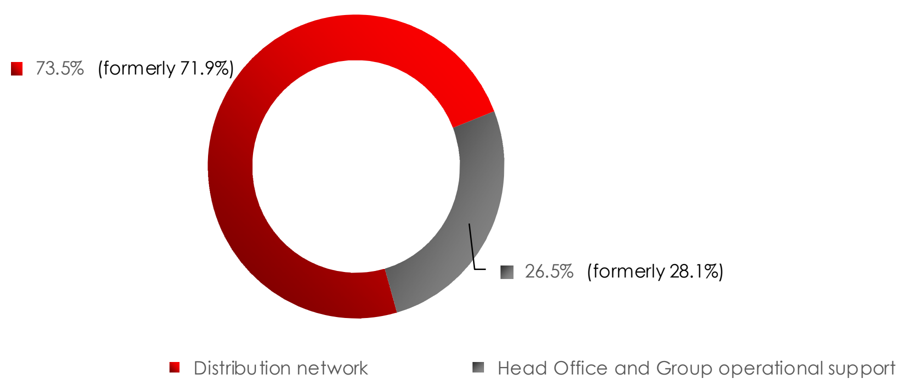
The following table provides a breakdown of employees by level at the end of 2016, compared with 2015.

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

No. of Employees	**31.12.2016**	**%**	**31.12.2015**	**%**	**Change Amount**	**%**
Managers	36	1.5%	36	1.5%	0	0.0%
3rd and 4th level middle managers	477	20.2%	473	20.0%	4	0.8%
1st and 2nd level middle managers	616	26.1%	608	25.6%	8	1.3%
Other personnel	1,227	52.1%	1,254	52.9%	-27	-2.2%
Group employees	**2,356**	**100.0%**	**2,371**	**100.0%**	**-15**	**-0.6%**

The following chart provides a breakdown of the workforce at the year end between Head Office and operational support and the distribution network.

*Chart no. 3 - **BREAKDOWN OF EMPLOYEES BY AREA***



5.2 - Training

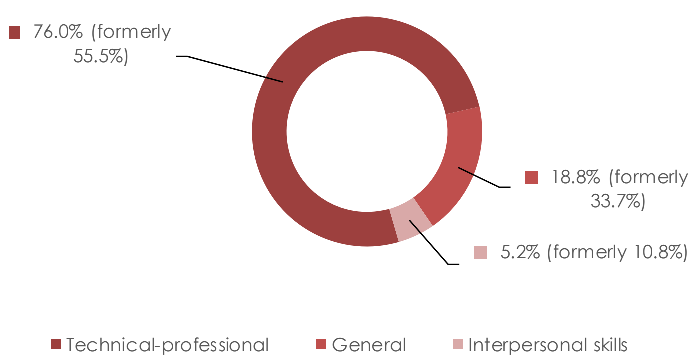
The growth and development of personnel is supported by training, consistent with the directives and procedures envisaged at Group level.

A total of 16,063 man-days of training were delivered during the year, considering internal courses, conferences, external seminars and on-line training, which represents an average of 6.83 training days for each employee.

The programme comprises "General" training courses for all professional families, with a view to developing cross-functional knowledge (including the training required by law), and "Technical-professional" that comprises courses aimed at developing the technical skills of persons required to perform specific duties, or who are interested in consolidating and further improving the skills required by their roles. Last but not least, the programme addresses "Interpersonal skills" in order to develop behavioural skills, facilitate the dissemination of Group culture and internalise Group values.

The following chart shows the breakdown in percentage terms of training days that were held in 2016 in the three areas mentioned above.

Chart no. 4 - **BREAKDOWN OF TRAINING DAYS IN 2016 BY TYPE OF TRAINING OFFERED**



The main "General" training initiatives included the following activities intended to keep personnel constantly updated about regulatory requirements:

- MODEL 231: following the identification of new crimes, specific training was held in order to update the special sections of the Model 231;
- Anti-Money Laundering: classroom training was provided as part of the continuing professional education of branch personnel, while on-line training was made available to network and central staff;
- Transparency: on-line training was provided in order to update personnel;
- Training on Safety at Work: this is provided to all staff, managers and fire-prevention and first-aid personnel.

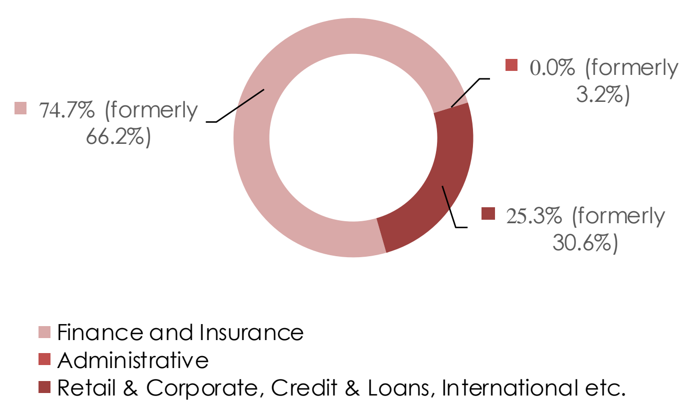
The “Technical-professional” training included:

- with regard to Loans, training was provided on performance of the comprehensive assessment, with work to develop the skills needed for the asset quality review process. At the same time, classroom courses were held for loan officers on the use of models for the assessment and analysis of historical and forecast data, with a particular focus on developing the skills of the Corporate Managers;
- with regard to International activities, updates were provided to branch and other personnel in view of the constant regulatory changes in this area, several of which are important in terms of operational and reputational risk;
- in the Finance area, training for the AIPB certification of Private Bankers was completed and further training was delivered on business planning and behavioural matters.

The professional updates required by IVASS on the sale of insurance products were also provided, with completion of the 60 hour, two-year training plan.

The following table graphically represents the percentage breakdown of the meetings held during the period based on the classification of the topics covered in the "Technical-professional" training.

Chart no. 5 - ***BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2016 BY TOPIC***



The training on “Interpersonal skills” continued the work carried out in the prior year to prepare branch personnel for their local business promotion activities, and strengthen the relationship of trust that ties customers to Group banks.

In compliance with the regulations specified in Bank of Italy Circular 285, the training commenced in the prior year for personnel responsible for implementing controls was completed, with a view to ensuring the development of cross-functional skills and acquire an integrated overview of the control activities to be performed.

A programme for the development of English skills was also carried out during the year for executives and certain personnel at the Desio headquarters.

The attention paid by the Banco Desio Group to the growth and development of professional skills was acknowledged once again in 2016 by Fondo Banche Assicurazioni (FBA) and Fondir, which provided funding for training activities during the year.

5.3 - Industrial relations

Negotiations began with the trade unions during the first half of 2016 in order to redefine the Group's in-house employment contract.

It was agreed appropriate to promote a model of industrial relations founded on respect for the reciprocal roles of the Group and the trade unions and consequent reciprocal responsibilities, in line with the sector-level agreements already reached including, in particular, the "Agreements on union action" signed by A.B.I. and the competent trade unions on 7 July 2010, 24 October 2011 and 25 November 2015.

The negotiations were limited to matters linked to the national employment contract, pursuant to art. 28 of the National Contract dated 19 January 2012, as renewed by the Agreement dated 31 March 2015.

Following numerous meetings on one of the matters (bonus payment), a Group Framework Agreement was signed on 13 June 2016 that specified how to allocate the bonus earned in 2015 and paid in 2016. This Agreement made it possible to activate the tax relief envisaged in the Ministerial Decree dated 25 March 2016 and, as in the prior year, envisaged access to integrated welfare plans.

As mentioned, negotiations were held during the second half of the year on the Income support solidarity fund, which was signed with the trade unions at Group level on 29 November 2016. Parallel negotiations were also held with the trade unions in relation to the healthcare policy and employee loans, resulting in signature of the related agreements, again at Group level, on the same date.

6 - Control activities

6.1 - The levels of control in the management control and coordination function

In exercising its management control and coordination function, Banco di Desio e della Brianza S.p.A., in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent in-house functions for the specific control mechanisms.

The first level, of a strategic nature, is aimed at constantly verifying the guidelines provided by the Parent Company and is put into effect mainly by means of the presence on the Boards of Directors of each subsidiary of a certain number of its own officers that would normally represent the majority of Board members.

The second level is of a management type and regards the performance of analysis and the systematisation and measurement of periodic information flows from the subsidiaries, in order to verify the pursuit of strategic objectives in compliance with regulatory provisions, the preparation of adequate reporting on trends and earnings, the analysis of development, research or investment projects and of strategic opportunities, forecast cash flows and the other information needed for the preparation of the Group budget.

The third level is defined as technical-operational and mainly consists of monitoring the internal control system.

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.2 - The internal control system

The internal control system consists of a set of principles of conduct, rules and organisational procedures, which - in compliance with the law, Supervisory Authorities' regulations and corporate strategies - enables proper management of all of the Group's activities, with the involvement of corporate bodies and senior management and, generally, all the personnel.

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.3 - Risk measurement and management

As regards the specific activities performed by the Parent Company's Risk Management function, with the objective of ensuring controls over the management of various types of risk by means of the adoption of integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and related hedging policy.

7 - Results of operations

The following detailed tables and related comments are based on the consolidated balance sheet and income statement aggregates. Information about the individual companies in the Banco Desio Group is provided in following chapter "8 – Performance of consolidated companies".

7.1 - Savings deposits: customer assets under administration

Total customer funds under management at 31 December 2016 reached Euro 23.6 billion, representing an increase of some Euro 1.1 billion with respect to the 2015 year end balance (5.0%), mainly attributable to institutional 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	31.12.2016	%	31.12.2015	%	Change Amount	Change %
Due to customers	8,729,591	36.9%	8,244,110	36.7%	485,481	5.9%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,409,792	6.0%	1,940,932	8.6%	-531,140	-27.4%
Direct deposits	**10,139,383**	**42.9%**	**10,185,042**	**45.3%**	**-45,659**	**-0.4%**
Ordinary customer deposits	8,415,302	35.7%	8,343,925	37.1%	71,378	0.9%
Institutional customer deposits	5,058,827	21.4%	3,966,177	17.6%	1,092,650	27.5%
Indirect deposits	**13,474,129**	**57.1%**	**12,310,102**	**54.7%**	**1,164,027**	**9.5%**
Total customer deposits	**23,613,512**	**100.0%**	**22,495,144**	**100.0%**	**1,118,368**	**5.0%**

Direct deposits

Direct deposits at the end of the year amounted to Euro 10.1 billion, a decrease of Euro 46 million due to the reduction in the balance of debt securities in issue and financial liabilities valued at fair value of Euro 531 million (-27.4%) partly offset by the rise in amounts due to customers of Euro 485 million (+5.9%).

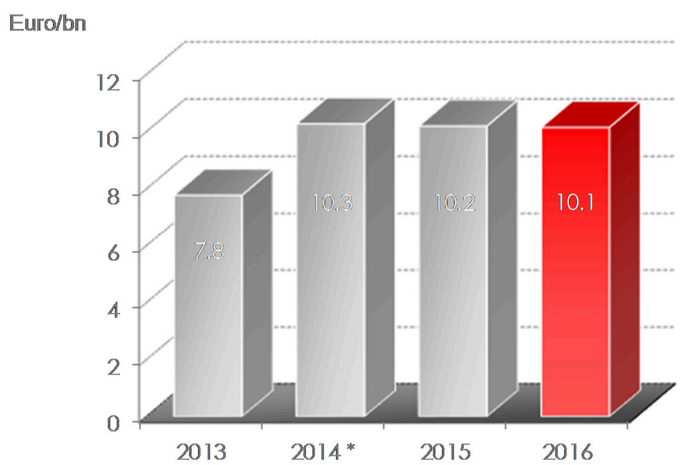
The balance due to customers consists for some Euro 7.3 billion of demand deposits, i.e. current accounts and savings deposits, restricted time deposits for Euro 1.3 billion, and for the rest of other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed by the Group of some Euro 1.3 billion (including Euro 0.3 billion of subordinated bonds) and certificates of deposits of some Euro 0.1 billion. Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year 409 million euro (of which 31 million euro subordinated securities);
- between 1 and 3 years 697 million euro (of which 113 million euro subordinated securities);
- between 3 and 5 years; 181 million euro;
- beyond 5 years; 89 million euro (of which 130 million euro subordinated securities).

The trend in direct deposits in recent years is shown in the following chart.

Chart no. 6 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



*Banca Popolare di Spoleto became part of Banco Desio Group in 2014

Indirect deposits

Overall, at 31 December 2016 indirect deposits posted an increase of 9.5% compared with the end of the previous year, rising to Euro 13.5 billion.

In particular, the trend is attributable to deposits from institutional customers, up by Euro 1.1 billion (+27.5%), which resulted in a balance of Euro 5.1 billion, while ordinary customer deposits came to Euro 8.4 billion, a rise of Euro 0.1 billion (+0.9%), due to the performance of assets under management (+9.9%), partially offset by a decrease in assets under administration (-10.1%).

The table below shows details of this aggregate with the changes during the period.

Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	Change %
Assets under administration [1]	**3,401,030**	**25.2%**	**3,782,519**	**30.7%**	**-381,489**	**-10.1%**
Assets under management	**5,014,272**	**37.3%**	**4,561,406**	**37.1%**	**452,867**	**9.9%**
of which: Mutual funds and Sicavs	*1,869,166*	*13.9%*	*1,584,561*	*12.9%*	*284,606*	*18.0%*
Managed portfolios	*857,950*	*6.4%*	*730,153*	*5.9%*	*127,798*	*17.5%*
Bancassurance	*2,287,156*	*17.0%*	*2,246,693*	*18.3%*	*40,463*	*1.8%*
Ordinary customer deposits [1]	**8,415,302**	**62.5%**	**8,343,925**	**67.8%**	**71,378**	**0.9%**
Institutional customer deposits [2]	**5,058,827**	**37.5%**	**3,966,177**	**32.2%**	**1,092,650**	**27.5%**
Indirect deposits [1] [2]	**13,474,129**	**100.0%**	**12,310,102**	**100.0%**	**1,164,027**	**9.5%**

[1] at 31.12.2016 the volumes are less than for the Bonds issued by the Parent Company and placed with customers of Banca Popolare di Spoleto S.p.A. (Euro 66.4 million) and vice versa (Euro 0.1 million) (at 31.12.2015 Euro 117.5 million and Euro 0.8 million respectively);

[2] institutional customer deposits at 31.12.2016 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.2 billion (Euro 2.2 billion at 31.12.2015).

The following chart analyses the indirect deposits from ordinary customers by sector at 31 December 2016, showing that the weighting of managed assets has increased with respect to the prior year. The chart after that analyses the various components of managed assets.

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2016**

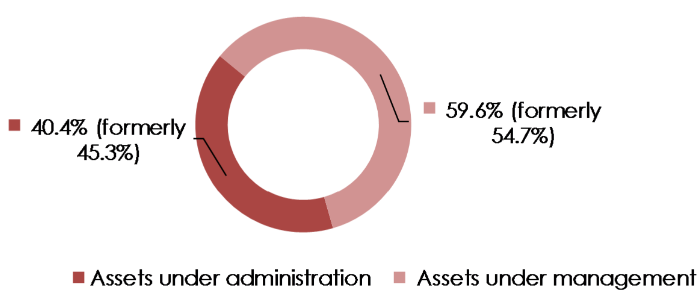
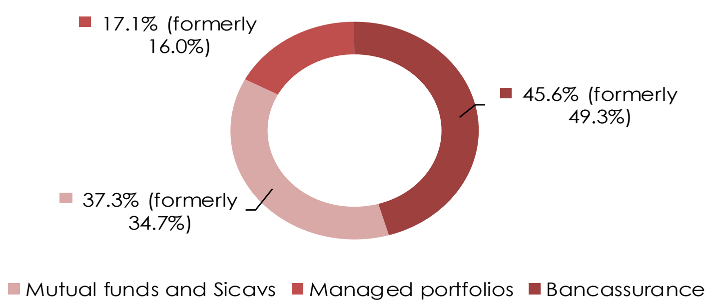


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2016**



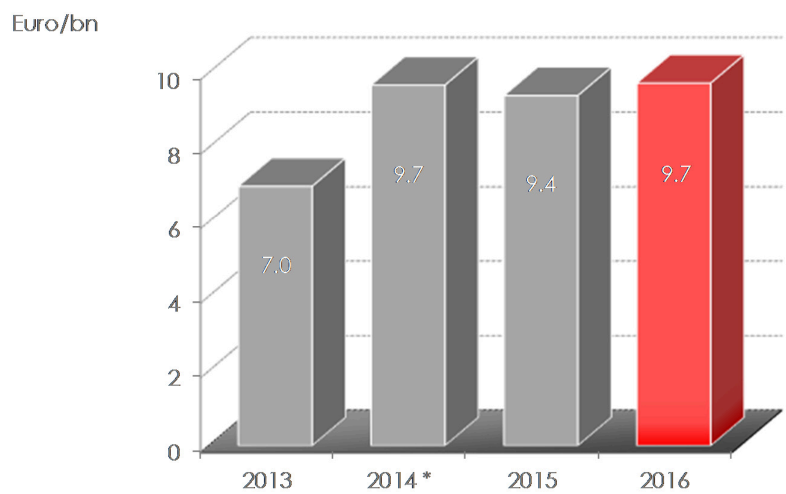
With regard to Mutual Funds, Sicavs and Managed portfolios, the year started very badly on fears of a recession in China, but the principal asset classes managed to achieve positive returns over the full year. In terms of the stock markets, the best returns were generated in the USA, supported by the improved macroeconomic situation, and in Japan, due to the monetary policy adopted by the central bank. Europe trailed due to the political tensions. The best returns on bonds were obtained from the high-yield issues. Emerging country bonds performed very well in the early part of the year, but lost some of their gains following the US elections. Eurozone government bonds (excluding Italy) also rose, as did US bonds which closed higher than at the end of 2015. The rate risk on the bond portfolios remained below the reference parameter for the entire year. More generally, management policies sought to maximise diversification; in particular, preference was given to loans with lower ratings and to inflation-linked securities. Investment in managed equity portfolios was in line with the reference parameter. In category terms, attention was given to the more stable sectors (non-cyclical consumption) rather than to financials. Preference was also given to securities paying a high dividend.

7.2 - Credit management: loans to customers

The total value of loans to ordinary customers at the end of the year comes to Euro 9.7 billion, an increase of 3.6% compared with the end of 2015.

The following chart shows the overall trend in customer loans in recent years.

Chart no. 9 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**



*Banca Popolare di Spoleto became part of Banco Desio Group in 2014

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

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	Change %
Current accounts	1,723,130	17.7%	1,818,025	19.4%	-94,895	-5.2%
Mortgages and other long-term loans	6,575,882	67.7%	6,311,065	67.2%	264,817	4.2%
Other	1,209,415	12.4%	1,257,221	13.4%	-47,806	-3.8%
Loans to ordinary customers	**9,508,427**	**97.8%**	**9,386,311**	**100.0%**	**122,116**	**1.3%**
Loans to institutional customers	**211,681**	**2.2%**			**211,681**	
Loans to customers	**9,720,108**	**100.0%**	**9,386,311**	**100.0%**	**333,797**	**3.6%**

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2016 continues to reflect a high degree of risk diversification, although amounts are increasing as can be seen from the following table.

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

Number of customers [1] [2]	**31.12.2016**	**31.12.2015**
First 10	1.28%	1.31%
First 20	2.21%	2.13%
First 30	2.96%	2.85%
First 50	4.20%	3.99%

[1] *according to the figures of the Parent Company and the subsidiary Banca Popolare di Spoleto S.p.A.*

[2] *net of repurchase agreements with institutional counterparties of Euro 211.7 million at 31.12.2016.*

Net impaired loans comprising non-performing loans, "unlikely to pay" loans and impaired past due and/or overdrawn exposures totalled Euro 910.2 million at 31 December 2016, net of adjustments of Euro 783 million, an increase of Euro 5.7 million compared with 31 December 2015.

In particular, net non-performing loans totalled Euro 481.4 million, unlikely to pay loans Euro 412.1 million and impaired past due and/or overdrawn exposures Euro 16.7 million.

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

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

% of gross loans [1]	**31.12.2016**	**31.12.2015**
Gross non-performing loans to customers	16.05%	16.79%
of which:		
- gross doubtful loans	10.45%	10.42%
- unlikely to pay, gross	5.41%	5.83%
- non-performing past due and/or overdrawn exposures, gross	0.18%	0.55%

% of net loans	**31.12.2016**	**31.12.2015**
Net non-performing loans to customers	9.36%	9.64%
of which:		
- net doubtful loans	4.95%	4.73%
- unlikely to pay, net	4.24%	4.39%
- non-performing past due and/or overdrawn exposures, net	0.17%	0.52%

[1] considering the gross value and the write-downs of non-performing loans of Banca Popolare di Spoleto S.p.A. without taking into account the changes needed to represent the acquisition value.

The main indicators on the coverage of impaired loans are reported below considering, for non-performing loans, the amount of direct write-downs made over the years, together with those relating to performing loans. The percentage coverage of impaired loans has decreased due to the disposal of unsecured non-performing loans totalling Euro 166.8 million euro (which had a higher than average coverage percentage), as discussed in section "3.2 Significant events".

Table no. 7 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% Coverage of non-performing and performing loans [1]	**31.12.2016**	**31.12.2015**
% Coverage of doubtful loans	56.34%	58.48%
% Coverage of doubtful loans, gross of cancellations	60.87%	64.18%
% Total coverage of impaired loans	46.24%	47.50%
% Coverage of impaired loans, gross of cancellations	50.01%	52.23%
% Coverage of performing loans	0.54%	0.67%

[1] considering the gross value and the write- downs of non- performing loans of Banca Popolare di Spoleto S.p.A. without taking into account the changes needed to represent the acquisition value.

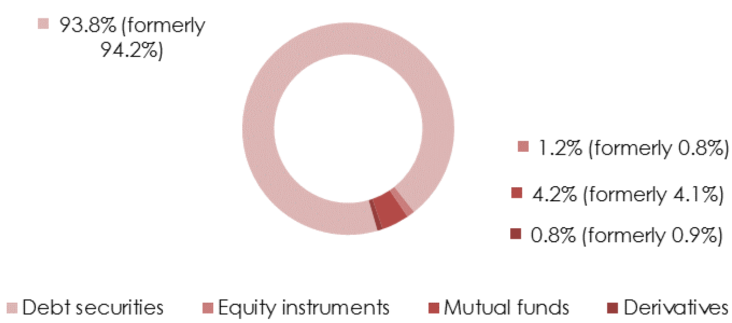
7.3 - The securities portfolio and interbank position

Securities portfolio

At 31 December 2016, the Group's total financial assets amounted to Euro 1.9 billion, down from end of 2015 (-1.6%).

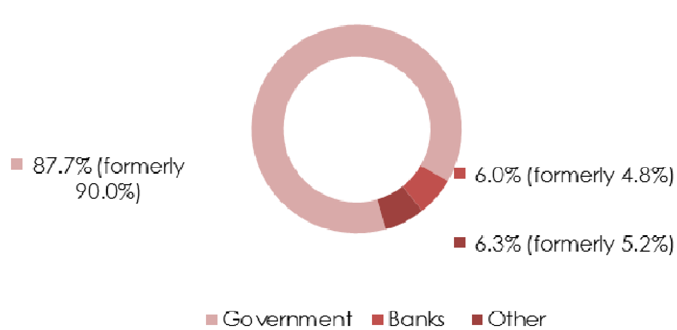
The portfolio breakdown by type of security is shown in the following chart, which shows that prevailing party (93.8%) of the investments still consist of debt securities.

Chart no. 10 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2016 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 87.7% relates to government securities, 6.0% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 11 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2016 BY TYPE OF ISSUER**



At year end, the duration of the portfolio was 2.8.

Activity during the year mostly involved transactions in Italian government securities, employing strategies that took advantage of market opportunities. A proprietary trading desk was established during the year, operating on all the principal asset classes with positive returns, in full compliance with the assigned limits.

In general, the bond markets performed well, with the best results coming from high-yield bonds. Emerging country bonds performed very well in the early part of the year, but lost some of their gains following the US elections. Euro area (excluding Italy) government bonds also generated good results, as did US government bonds which closed the year with higher yields than in 2015.

After a poor start, on fears of a recession in China, the world's principal stock markets closed the year higher. The best returns were achieved in the United States, due to the improved macroeconomic situation, and in Japan due to the monetary policy of the central bank.

The currencies of the developed countries did not fluctuate much. As an exception, the British pound devalued sharply following the results of the Brexit referendum. The yen was considered to be a refuge currency for many months, resulting in marked appreciation before weakening again after the adoption of new expansionary measures by the central bank. With regard to the emerging currencies, the worst returns were reported by the Mexican peso and the Turkish lira, while those tied to commodities benefited from the progressive stabilisation of the oil price.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Bank uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions.

The Group has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments. In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral with predominantly daily margining and zero threshold (so-called Collateral). In such cases the other party is considered "risk free" and the Credit Value Adjustment (CVA) is zero.

Lastly, work continued during 2016 on implementing the requirements of European Market Infrastructure Regulation (EMIR) 648/2012 dated 4 July 2012 and subsequent delegated and enabling regulations. With specific reference to the requirement to reconcile portfolios with counterparties, the bank has adopted a top-level platform in order to automate compliance.

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 31.12.2015 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. 8 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		31.12.2016	
		Italy	**Total**
Financial assets available for trading	Nominal value	3,680	3,680
	Book value	2,798	2,798
Financial assets available for sale	Nominal value	1,636,226	1,636,226
	Book value	1,638,237	1,638,237
Sovereign debt	**Nominal value**	**1,639,906**	**1,639,906**
	Book value	**1,641,035**	**1,641,035**

Table no. 9 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		**Italy**	**31.12.2016**	
			Nominal value	**Book value**
Financial assets available for trading	up to 1 year	0	0	0
	1 to 3 years	2	2	2
	3 to 5 years	0	0	0
	over 5 years	3,678	3,678	2,796
	Total	3,680	3,680	2,798
Financial assets available for sale	up to 1 year	198,000	198,000	201,987
	1 to 3 years	405,000	405,000	408,687
	3 to 5 years	176,500	176,500	174,982
	over 5 years	856,726	856,726	852,581
	Total	1,636,226	1,636,226	1,638,237
Sovereign debt	**up to 1 year**	**198,000**	**198,000**	**201,987**
	1 to 3 years	**405,002**	**405,002**	**408,688**
	3 to 5 years	**176,500**	**176,500**	**174,982**
	over 5 years	**860,404**	**860,404**	**855,377**
	Total	**1,639,906**	**1,639,906**	**1,641,035**

Net interbank position

The net interbank position of the Group at 31 December 2016 reflected borrowing of about Euro 0.8 billion, up from about Euro 0.5 billion at the end of the prior year due, in part, to the funding facility obtained from the ECB by adherence to the A.BA.CO. procedure.

The excess liquidity, that in certain periods of the year rose considerably, was mainly allocated on the Money Market Facility (MMF) repo market.

7.4 - Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 31 December 2016, including net profit for the period, amounts to Euro 868.1 million, compared with Euro 870.4 million at the end of 2015.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 31 December 2016, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 31.12.2016**

Amounts in thousands of Euro	Shareholders' equity	*of which: Net profit (loss) for the period*
Parent Company balances at 31 December 2016	***865,566***	***31,679***
Effect of consolidation of subsidiaries	8,602	6,063
Effect of deconsolidation of associates	-6,048	-6,048
Dividends collected during the period	-	-6,143
Consolidated balances at 31 December 2016	**868,120**	**25,551**

After a pay-out that takes account of the proposed allocation of the net profits of Group companies, subject to authorisation at the respective shareholders' meetings, capital for supervisory purposes (Own Funds) at 31 December 2016 amounted to Euro 1,085.0 million (CET 1 + AT1 889.2 million euro + T2 195.8 million euro). This was down by Euro 21.1 million from Euro 1,106.1 million at the end of the prior year due, in the main, to the reduction in the subordinated loans element of own funds as a result of amortisation.

Ahead of formal clarification from the European authorities about the determination of supervisory capital, reference was made to the indications contained in the Bank of Italy communication dated 23 January 2017, which allows “less significant” banks that have exercised the option envisaged in Bank of Italy Circular 285 to continue excluding from own funds the profits and losses on exposures to central administrations recorded in the “Financial assets available for sale” portfolio.

At 31 December 2016, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 10.9% (10.8% at 31 December 2015). The Tier 1 ratio (T1/Risk-weighted assets) was 11.0% (11% at 31 December 2015), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.5% (13.9% at 31 December 2015).

The minimum capital required by law at a consolidated level, including the capital conservation buffer of 2.5%, amounted to 7% for the Common Equity Tier 1 ratio, 8.5% for the Tier 1 ratio and 10.5% for the Total Capital ratio.

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.

It is worth remembering that in August 2015 the Parent Company received the Bank of Italy's notification regarding the capital requirements to be met at the end of the Supervisory Review and Evaluation Process (SREP), which confirmed the following capital ratios at a consolidated level:

- 7% for Common Equity Tier 1 ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 5% (of which 4.5% for the minimum regulatory requirements and 0.5% for additional requirements);
- 8.5% for the Tier 1 ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.7% (of which 6% for the minimum regulatory requirements and 0.7% for additional requirements);
- 10.5% for the Total Capital ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.9% (of which 8% for the minimum regulatory requirements and 0.9% for additional requirements).

On 9 January 2017, the Bank of Italy notified the Parent Company about the start of procedures for imposing additional capital requirements following completion of the Supervisory Review and Evaluation Process (SREP) 2016, with application from the report on own funds subsequent to the issue date of the measure (within 90 days of the start of the procedures). Accordingly, the Group will be required to apply the following:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;
- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.7% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

It is also necessary to consider the Bank of Italy review of the capital conservation buffer, currently 2.5%, that will be included in the transitional instructions contained in the CRD IV from 2017, being:

- 1.250% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.50% from 1 January 2019 onwards (fully loaded regime).

The following table compares the consolidated capital requirements at 31 December 2016 with the minimum requirements at that date and the minimum consolidated requirements to be met in 2017 as a result of the events described.

	Recorded at 31.12.2016	Required up to 31.12.2016	Required on SREP completion
CET 1	10.9 %	7.0%	6.0%
TIER 1	11.0 %	8.5%	7.6%
TOTAL CAPITAL RATIO	13.5 %	10.5%	9.7%

7.5 - 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 *consolidated 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/extraordinary dividends from financial assets held for sale";
- 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 in the following table, which presents the reclassified income statement, 2016 closed with a net profit attributable to the Parent Company of Euro 25.6 million, compared with a net profit of Euro 38.2 million reported for the previous year:

Table no. 11 - **RECLASSIFIED INCOME STATEMENT**

Captions *Amounts in thousands of Euro*		31.12.2016	31.12.2015	Change Amount	Change %
10+20	Net interest income	236,192	261,535	-25,343	-9.7%
70	Dividends and similar income	976	299	677	226.5%
	Profit (loss) from equity investments in associates	0	1,699	-1,699	-100.0%
40+50	Net commission income	150,977	161,050	-10,073	-6.3%
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	20,136	30,866	-10,730	-34.8%
220	Other operating income/expense	13,725	15,340	-1,615	-10.5%
	Operating income	**422,006**	**470,789**	**-48,783**	**-10.4%**
180 a	Payroll costs	-178,164	-179,533	1,369	-0.8%
180 b	Other administrative costs	-86,549	-86,313	-236	0.3%
200+210	Net adjustments to property, plant and equipment and intangible assets	-10,512	-12,715	2,203	-17.3%
	Operating costs	**-275,224**	**-278,561**	**3,337**	**-1.2%**
	Result of operations	**146,782**	**192,228**	**-45,446**	**-23.6%**
	Gains (Losses) on disposal or repurchase of loans	-1,710	-1,915	205	-10.7%
130 a	Net impairment adjustments to loans and advances	-90,261	-147,773	57,512	-38.9%
130 b	Net impairment adjustments to financial assets available for sale	-195	-384	189	-49.3%
130 d	Net impairment adjustments to other financial assets	489	-827	1,316	n.s.
190	Net provisions for risks and charges	-4,446	200	-4,646	n.s.
	Profit (loss) from operations before tax	**50,659**	**41,529**	**9,130**	**22.0%**
290	Income taxes on current operations	-12,852	-8,972	-3,880	43.2%
	Profit (loss) from operations after tax	**37,807**	**32,557**	**5,250**	**16.1%**
240+270	Profit (loss) from investments and disposal of investments	7,616	12,350	-4,734	-38.3%
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities	-30,722	-10,584	-20,138	190.3%
	Non-recurring profit (loss) before tax	**-23,106**	**1,766**	**-24,872**	**n.s.**
	Income taxes from non-recurring items	10,836	3,275	7,561	230.8%
	Non-recurring profit (loss) after tax	**-12,270**	**5,041**	**-17,311**	**n.s.**
320	**Net profit (loss) for the period**	**25,537**	**37,598**	**-12,061**	**-32.1%**
330	Minority interests	14	574	-560	-97.6%
340	**Parent Company net profit (loss)**	**25,551**	**38,172**	**-12,621**	**-33.1%**

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. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2016**

	Captions	As per financial statements								Reclassified income statement
	Amounts in thousands of Euro	**31.12.2016**	Tax/expense recoveries	Profit (Losses) from associates	Special dividends from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**31.12.2016**
10+20	Net interest income	236,192								236,192
70	Dividends and similar income	5,509			-4,533					976
	Profit (loss) from equity investments in associates			0						0
40+50	Net commission income	150,977								150,977
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	18,426			0		1,710			20,136
220	Other operating income/expense	48,943	-35,638			420				13,725
	Operating income	**460,047**	**-35,638**	**0**	**-4,533**	**420**	**1,710**	**0**	**0**	**422,006**
180 a	Payroll costs	-202,501						24,337		-178,164
180 b	Other administrative costs	-131,337	35,638					9,150		-86,549
200+210	Net adjustments to property, plant and equipment and intangible assets	-10,092				-420				-10,512
	Operating costs	**-343,930**	**35,638**	**0**	**0**	**-420**	**0**	**33,488**	**0**	**-275,224**
	Result of operations	**116,117**	**0**	**0**	**-4,533**	**0**	**1,710**	**33,488**	**0**	**146,782**
	Gains (Losses) on disposal or repurchase of loans						-1,710			-1,710
130 a	Net impairment adjustments to loans and advances	-90,138						-123		-90,261
130 b	Net impairment adjustments to financial assets available for sale	-2,265						2,070		-195
130 d	Net impairment adjustments to other financial assets	2						487		489
190	Net provisions for risks and charges	-3,779						-667		-4,446
	Profit (loss) from operations before tax	**19,937**	**0**	**0**	**-4,533**	**0**	**0**	**35,255**	**0**	**50,659**
290	Income taxes on current operations	-2,016							-10,836	-12,852
	Profit (loss) from operations after tax	**17,921**	**0**	**0**	**-4,533**	**0**	**0**	**35,255**	**-10,836**	**37,807**
240+270	Profit (loss) from investments and disposal of investments	7,616		0	0					7,616
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities				4,533			-35,255		-30,722
	Non-recurring profit (loss) before tax	**7,616**	**0**	**0**	**4,533**	**0**	**0**	**-35,255**	**0**	**-23,106**
	Income taxes from non-recurring items								10,836	10,836
	Non-recurring profit (loss) after tax	**7,616**	**0**	**0**	**4,533**	**0**	**0**	**-35,255**	**10,836**	**-12,270**
320	**Net profit (loss) for the period**	**25,537**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25,537**
330	Minority interests	14								14
340	**Parent Company net profit (loss)**	**25,551**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25,551**

Table no. 13 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2015**

	Amounts in thousands of Euro	**As per financial statements** 31.12.2015	Tax/expense recoveries	Profit (Losses) from associates	Profit (loss) from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**Reclassified income statement** 31.12.2015
10+20	Net interest income	261,535							0	261,535
70	Dividends and similar income	299								299
	Profit (loss) from equity investments in associates			1,699						1,699
40+50	Net commission income	161,050								161,050
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	32,234			-3,283		1,915			30,866
220	Other operating income/expense	49,704	-37,446			3,082				15,340
	Operating income	**504,822**	**-37,446**	**1,699**	**-3,283**	**3,082**	**1,915**	**0**	**0**	**470,789**
180 a	Payroll costs	-179,772						239		-179,533
180 b	Other administrative costs	-133,132	37,446					9,373		-86,313
200+210	Net adjustments to property, plant and equipment and intangible assets	-9,633				-3,082				-12,715
	Operating costs	**-322,537**	**37,446**	**0**	**0**	**-3,082**	**0**	**9,612**	**0**	**-278,561**
	Result of operations	**182,285**	**0**	**1,699**	**-3,283**	**0**	**1,915**	**9,612**	**0**	**192,228**
	Gains (Losses) on disposal or repurchase of loans						-1,915			-1,915
130 a	Net impairment adjustments to loans and advances	-143,429						-4,344		-147,773
130 b	Net impairment adjustments to financial assets available for sale	-384								-384
130 d	Net impairment adjustments to other financial assets	-1,009						182		-827
190	Net provisions for risks and charges	-4,934						5,134		200
	Profit (loss) from operations before tax	**32,529**	**0**	**1,699**	**-3,283**	**0**	**0**	**10,584**	**0**	**41,529**
290	Income taxes on current operations	-5,697							-3,275	-8,972
	Profit (loss) from operations after tax	**26,832**	**0**	**1,699**	**-3,283**	**0**	**0**	**10,584**	**-3,275**	**32,557**
240+270	Profit (loss) from investments and disposal of investments	10,766		-1,699	3,283					12,350
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities							-10,584		-10,584
	Non-recurring profit (loss) before tax	**10,766**	**0**	**-1,699**	**3,283**	**0**	**0**	**-10,584**	**0**	**1,766**
	Income taxes from non-recurring items								3,275	3,275
	Non-recurring profit (loss) after tax	**10,766**	**0**	**-1,699**	**3,283**	**0**	**0**	**-10,584**	**3,275**	**5,041**
320	**Net profit (loss) for the period**	**37,598**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**37,598**
330	Minority interests	574								574
340	**Parent Company net profit (loss)**	**38,172**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**38,172**

The net profit attributable to the Parent Company at 31 December 2016 came in at 25.6 million euro, an increase of 33.1% on the net profit of 38.2 million euro in the comparison period; of particular importance is the decline in net impairment adjustments to loans and advances which came to 90.3 million euro (formerly 147.8 million euro), absorbed by the lower contribution made by net income from trading, hedging and the sale/repurchase of loans, financial assets and liabilities and financial assets and liabilities designated at fair value through profit and loss, equal to Euro 20.1 million (formerly 30.9 million), by the erosion of net interest income of 25.3 million euro and of net commission income for 10.1 million euro, due to the situation of monetary markets, by higher provision for risks and expenses of Euro 4.6 million, higher incidence of current taxes of Euro 3.9 million and by non-recurring losses of Euro 12.2 million (profit of Euro 5.0 million in the previous year).

The main cost and revenue items in the reclassified income statement are analysed below.

Operating income

Core revenues decreased by Euro 48.8 million on the comparative period, coming in at Euro 422.0 million (-10.4%). The trend is mainly attributable to *net interest income* and *net commission income*, in view of the difficult economic and financial environment, which show reductions of Euro 25.3 million (-9.7%) and Euro 10.1 million (-6.3%), as well as to *Net trading income, hedging and disposal/repurchase of loans, financial assets and liabilities and financial assets and liabilities designated at fair value through profit and loss* which is Euro 10.7 million lower than in the comparative period and to *Profit from associates down by 1.7 million and other operating income/expense* by Euro 1.6 million. On the other hand, there has been an increase in the balance of *dividends and similar income* for Euro 0.7 million; this balance is stated net of the dividends totalling Euro 4.5 million (Euro 3.2 million for the Parent Bank and Euro 1.3 million for Banca Popolare di Spoleto) that were recorded following the distribution of profit reserves authorised by Cedacri S.p.A., which have been reclassified as Non-recurring operating profit (loss) in the *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends on assets available for sale* caption.

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* amounted to Euro 275.2 million and have decreased, with respect to the comparative period, by Euro 3.3 million (-1.2%).

The reductions included a decrease in *payroll costs* by about Euro 1.4 million (-0.8%), net of about Euro 24.3 million (Euro 16.9 million for the Parent Bank, Euro 7.1 million for Banca Popolare di Spoleto and Euro 0.3 million for Fides) relating to the provision to the solidarity and leaving incentive fund, with related time value effect, reclassified to the Non-recurring operating profit (loss) caption. *Other administrative costs* have increased on the other hand by about Euro 0.2 million (+0.3%).

Other administrative costs include both the up-front standard gross contribution to the Single Resolution Mechanism (SRM) of Euro 3.8 million for the year (formerly 2.8 million euro) and the up-front standard gross contribution to the Deposit Guarantee Scheme (DGS)) of Euro 3.4 million (formerly 1.6 million euro). The net balance is stated net of Euro 7.6 million (formerly 8.4 million euro) relating to the additional gross contribution to the SRM reclassified as Non-recurring operating profit (loss) in the *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends on assets available for sale* caption.

Note that the balance is shown net of about Euro 1.6 million for the Parent Company's contribution to the Interbank Fund on behalf of Banca Tercas (recorded under "Other administrative costs" in the financial statements), which is shown under "Net impairment write-downs/write-backs of other financial transactions" to offset the income of the same amount caused by reimbursement of the Tercas contribution.

The balance also includes net minor adjustments to property, plant and equipment and intangible assets totalling Euro 2.2 million.

Result of operations

The *result of operations* at 31 December 2016, therefore came to Euro 146.8 million, a decrease of Euro 45.5 million compared with the prior year (-23.6%).

Net profit (loss) from operations after tax

The result of operations of Euro 146.8 million leads to a net profit (loss) from operations after tax of Euro 37.8 million, 16.1% up compared with Euro 32.6 million in the comparative period, considering:

- the weight of *net impairment adjustments to loans and advances* totalling Euro 90.3 million, down from Euro 147.8 million in the prior year, which reflect the slowdown in the deterioration of loans while maintaining a high level of coverage,
- *losses on disposal or repurchase of loans and receivables* of Euro 1.7 million (which in the comparative period showed a loss of Euro 1.9 million),

- *net provisions for risks and charges* of Euro 4.4 million, which recorded a positive net balance of Euro 0.2 million in the comparative period,
- a positive contribution of Euro 0.3 million deriving from other minor amounts (losses of Euro 1.2 million in the comparative period);
- *income taxes on the profit from operations* of Euro 12.9 million (Euro 9.0 million in the comparative period).

The above balances take account of the following reclassifications as Non-recurring operating profit (loss) in the *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends on assets available for sale* caption:

- the balance of *net provisions for risks and charges* is stated net of about Euro 0.8 million released from the "Solidarity Fund" recorded in the prior year pursuant to the 2016 Stability Law to cover the subordinated bondholders of Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara and subsequently included in the standard DGS levy by the Interbank Deposit Protection Fund (FITD),
- the balance of the *net impairment adjustments to other financial assets* is stated net of the write-down of Euro 1.5 million relating to the Parent Bank's commitment to purchase a minority interest for more than its fair value and the write-down of Euro 0.5 million relating to the Parent Company's commitment to pay Euro 1.5 million to Fondo Atlante (settled on 3 January 2017),
- the balance of the *net impairment adjustments to financial assets available for sale* is stated net of the write-down of Euro 0.5 million of the equity interest recognised following the investment in Caricesena by the Voluntary Scheme of the Interbank Fund and the write-down of Euro 1.6 million of the investment in Fondo Atlante, which is classified among the financial assets available for sale at the reference date.

In particular the taxation for the period benefited for Euro 1.4 million from the step-up for tax purposes (pursuant to art. 15, paragraph 10, of D.L. 185/2008) of the goodwill recorded by Banca Popolare di Spoleto in the balance sheet for the contribution by the Parent Company of the business unit made up of former branches of Banco Desio Toscana and Banco Desio Lazio.

Non-recurring profit after tax

At the end of the year, *non-recurring result after tax* is negative for Euro 12.2 million, compared with the positive result of Euro 5.0 million in the previous year.

The balance includes:

- *Profit on equity investments* of Euro 7.6 million, deriving from the following events during the year that were described earlier:
  - Euro 2.6 million from the sale of the residual equity investment in Chiara Assicurazioni S.p.A., including a price adjustment of Euro 0.4 million on the shares sold in 2013,
  - Euro 5.2 million from the cancellation of the equity investment in CPC S.A. in liquidation,
  - Euro 0.3 million from the loss on the sale of shares in Istifid S.p.A.,
  - Euro 0.1 million from the cancellation of the equity investment in Rovere S.d.G. in liquidation,

  compared with the positive result reported in the prior year of Euro 12.3 million following the conversion at 1 October 2015 of the functional currency of CPC, a former subsidiary, from CHF to Euro;
- *Non-recurring provisions for risks and charges, other provisions and expenses* / special dividends *from financial assets available for sale* with a negative balance of Euro 30.7 million due to:

- one-time charges of Euro 24.3 million linked to the Income support solidarity fund with related discounting effect (Euro 16.9 million for the Parent Bank, Euro 7.1 million for Banca Popolare di Spoleto and Euro 0.3 million for Fides),
- gross additional contribution to the Single Resolution Mechanism (SRM) of Euro 7.6 million (Euro 5.7 million for the Parent Bank and Euro 1.9 million for Banca Popolare di Spoleto),
- adjustments of Euro 2.1 million linked to the measurement of the investment in Fondo Atlante (and related commitment to pay funds, settled on 3 January 2017);
- adjustments of Euro 1.5 million linked to the commitment of the Parent Bank to purchase a minority investment for more than fair value,
- adjustment of Euro 0.5 million on the alignment with fair value of the equity instrument recognised on the investment in Caricesena made by the Voluntary Scheme of the Interbank Fund,
- income of Euro 4.5 million representing the special dividend declared by Cedacri S.p.A. (Euro 3.2 million for the Parent Bank and Euro 1.3 million for Banca Popolare di Spoleto)
- release of Euro 0.8 million (Euro 0.5 million for the Parent Bank and Euro 0.3 million for Banca Popolare di Spoleto) from the provision to the "Solidarity Fund " recorded in the prior year in order to cover the subordinated bondholders of bailed-out banks,

compared with a negative balance of Euro 10.6 million in the prior year, due to the special gross contribution to the SRM of Euro 8.4 million, the consultancy expenses of about Euro 1 million linked to the purchase and integration within the Group of Banca Popolare di Spoleto S.p.A., the provision of Euro 0.8 million to the "Solidarity Fund" to cover the subordinated bondholders of bailed-out banks and the release of the time-value effect of Euro 0.2 million relating to the Solidarity and leaving incentive fund established in 2013;

- Positive effect of the *Taxes on non-recurring elements of income* of Euro 10.9 million (formerly Euro 3.3 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 a net profit for the Parent Company at 31 December 2016 of Euro 25.6 million.

8 - Performance of consolidated companies

In order to provide a breakdown of the performance described above at a consolidated level, the following significant summary data about the individual consolidated companies is provided, together with their financial, operating, risk and structural indices and a commentary on their performance.

8.1 - Banco di Desio e della Brianza S.p.A.

Balance sheet

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Total assets	8,925,882	8,694,725	231,157	2.7%
Financial assets	1,492,482	1,536,565	-44,083	-2.9%
Due from banks	500,276	447,669	52,607	11.8%
Loans to customers	6,247,053	5,977,833	269,220	4.5%
Property, plant and equipment	135,219	137,571	-2,352	-1.7%
Intangible assets	3,238	3,572	-334	-9.4%
Non-current assets and disposal groups held for sale	0	1,403	-1,403	-100.0%
Due to banks	1,011,518	810,833	200,685	24.8%
Due to customers	5,622,898	5,155,059	467,839	9.1%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,226,467	1,648,515	-422,048	-25.6%
Shareholders' equity (including Net profit/loss for the period)	865,567	852,046	13,521	1.6%
Own Funds	1,037,658	1,051,610	-13,952	-1.3%
Total indirect deposits	11,661,761	10,465,556	1,196,205	11.4%
of which: Indirect deposits from ordinary customers	*6,648,082*	*6,590,780*	*57,303*	*0.9%*
of which: Indirect deposits from institutional customers	*5,013,679*	*3,874,776*	*1,138,902*	*29.4%*

Income statement (1)

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Operating income	260,838	303,974	-43,136	-14.2%
of which: Net interest income	*134,617*	*156,048*	*-21,431*	*-13.7%*
Operating costs	174,006	173,499	507	0.3%
Result of operations	86,832	130,475	-43,643	-33.4%
Profit (loss) from operations after tax	33,281	32,200	1,081	3.4%
Non-recurring profit (loss) after tax	-1,602	2,920	-4,522	n.s.
Net profit for the year	31,679	35,120	-3,441	-9.8%

(1) *from the reclassified income statement*

Key figures and ratios

	31.12.2016	31.12.2015	Change amount
Capital/Total assets	9.7%	9.8%	-0.1%
Capital/Loans to customers	13.9%	14.3%	-0.4%
Capital/Due to customers	15.4%	16.5%	-1.1%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	70.6%	51.7%	18.9%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	16.3%	15.8%	0.5%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	16.4%	15.8%	0.6%
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.9%	20.0%	-0.1%
Financial assets/Total assets	16.7%	17.7%	-1.0%
Due from banks/Total assets	5.6%	5.1%	0.5%
Loans to customers/Total assets	70.0%	68.8%	1.2%
Loans to customers/Direct customer deposits	91.2%	87.9%	3.3%
Due to banks/Total assets	11.3%	9.3%	2.0%
Payables to customers/Total assets	63.0%	59.3%	3.7%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss/Total assets	13.7%	19.0%	-5.3%
Direct customer deposits/Total assets	76.7%	78.2%	-1.5%

	31.12.2016	31.12.2015	Change amount
Cost/Income ratio	66.7%	57.1%	9.6%
Net interest income/Operating income	51.6%	51.3%	0.3%
Result of operations/Operating income	33.3%	42.9%	-9.6%
Profit (loss) from operations after tax/Capital (2)	4.0%	3.9%	0.1%
ROE (2)	3.8%	4.6%	-0.8%
Profit (loss) from operations before tax/Total assets (ROA)	0.5%	0.5%	0.0%

	31.12.2016	31.12.2015	Change amount
Net doubtful loans/Loans to customers	4.1%	4.4%	-4.4%
Net non-performing loans/Loans to customers	7.2%	7.7%	-7.7%
% Coverage of doubtful loans	55.0%	55.9%	-55.9%
% Coverage of doubtful loans, gross of cancellations	63.3%	65.7%	-65.7%
% Total coverage of impaired loans	46.3%	47.2%	-47.2%
% Coverage of impaired loans, gross of cancellations	53.4%	55.8%	-55.8%
% Coverage of performing loans	0.48%	0.62%	-0.62%

Structure and productivity ratios

	31.12.2016	31.12.2015	Change amount	Change %
Number of employees	1,410	1,411	-1	-0.1%
Number of branches	149	149	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee (3)	4,429	4,047	382	9.4%
Direct deposits from customers per employee (3)	4,856	4,606	250	5.4%

	31.12.2016	31.12.2015	Change amount	Change %
Operating income per employee (3)	185	205	-20	-9.8%
Result of operations per employee (3)	62	88	-26	-29.5%

(2) *equity excluding net profit (loss) for the period;*

(3) based on the number of employees calculated as a straight average.

The profit at 31 December 2016 came in at 31.7 million euro, a decrease of 9.8% on the figure of 35.1 million euro in the comparative period; results benefited from the reduction in the net adjustments for impaired loans to 45.1 million euro (formerly 89.1 million euro), but this was absorbed by the lower contribution from net trading income, hedging and the sale/repurchase of loans, financial assets and liabilities and financial assets and liabilities designated at fair value of 17.8 million euro (formerly 30.1 million euro), the reduction in of about 21.4 million euro in net interest income due to the situation in the money markets, the contraction in the commission margin by 7.9 million euro, the increase in current taxes by 2.5 million euro and the net non-recurring expenses of 1.6 million euro (income of 2.9 million euro in the prior year), which includes a one-time provision to the "Income support solidarity fund" of 16.7 million euro, gross of the related tax effect, which was not present in the prior year.

Loans to customers increased from 5,977.8 million euro at the end of 2015 to 6,247.1 million euro at the reference date, an incidence of 7.2% of the deteriorated portfolio (formerly 7.7%).

Shareholders' equity increased from 852.0 million euro at 31 December 2015 to 865.6 million euro at the reference date, and capital for supervisory purposes (*Total capital ratio*) decreased from 1,051.6 million euro at the end of 2015 to 1,037.7 million euro, due to the reduction in class 2 capital since 31 December 2015 by 36.5 million euro.

The *Total capital ratio*, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 19.9% (20.0% at 31 December 2015).

8.2 - Banca Popolare di Spoleto S.p.A.

Balance sheet

Amounts in thousands of Euro	**31.12.2016**	**31.12.2015**	**Change amount**	**%**
Total assets	4,105,712	4,012,450	93,262	2.3%
Financial assets	379,865	365,360	14,505	4.0%
Due from banks	87,183	90,589	-3,406	-3.8%
Loans to customers	3,409,868	3,331,394	78,474	2.4%
Property, plant and equipment	42,714	44,084	-1,370	-3.1%
Intangible assets	8,392	8,249	143	1.7%
Due to banks	424,407	244,816	179,591	73.4%
Due to customers	3,106,267	3,086,908	19,359	0.6%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	186,073	285,012	-98,939	-34.7%
Shareholders' equity (including Net profit/loss for the period)	256,856	256,279	577	0.2%
Own Funds	249,920	248,502	1,418	0.6%
Total indirect deposits	1,878,890	1,937,114	-58,224	-3.0%
of which: Indirect deposits from ordinary customers	*1,833,742*	*1,871,512*	-37,770	-2.0%
of which: Indirect deposits from institutional customers	*45,148*	*65,602*	-20,454	-31.2%

Income statement [1]

Amounts in thousands of Euro	**31.12.2016**	**31.12.2015**	**Change amount**	**%**
Operating income	157,850	169,207	-11,357	-6.7%
of which: Net interest income	*95,459*	*101,883*	-6,424	-6.3%
Operating costs	99,276	97,538	1,738	1.8%
Result of operations	58,574	71,669	-13,095	-18.3%
Profit (loss) from operations after tax	11,964	11,094	870	7.8%
Non-recurring profit (loss) after tax	-4,745	-2,369	-2,376	100.3%
Net profit for the year	7,220	8,725	-1,505	-17.2%

[1] *from the reclassified income statement*

Key figures and ratios

	31.12.2016	31.12.2015	Change amount
Capital/Total assets	6.3%	6.4%	-0.1%
Capital/Loans to customers	7.5%	7.7%	-0.2%
Capital/Due to customers	8.3%	8.3%	0.0%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	138.0%	89.9%	48.1%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	9.2%	9.5%	-0.3%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	9.2%	9.5%	-0.3%
Total Own Funds/Risk-weighted assets (Total capital ratio)	9.4%	9.8%	-0.4%
Financial assets/Total assets	9.3%	9.1%	0.2%
Due from banks/Total assets	2.1%	2.3%	-0.2%
Loans to customers/Total assets	83.1%	83.0%	0.1%
Loans to customers/Direct customer deposits	103.6%	98.8%	4.8%
Due to banks/Total assets	10.3%	6.1%	4.2%
Payables to customers/Total assets	75.7%	76.9%	-1.2%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss/Total assets	4.5%	7.1%	-2.6%
Direct customer deposits/Total assets	80.2%	84.0%	-3.8%

	31.12.2016	31.12.2015	Change amount
Cost/Income ratio	62.9%	57.6%	5.3%
Net interest income/Operating income	60.5%	60.2%	0.3%
Result of operations/Operating income	37.1%	42.4%	-5.3%
Profit (loss) from operations after tax/Capital [2]	4.8%	3.5%	1.3%
ROE [2]	2.9%	2.6%	0.3%
Profit (loss) from operations before tax/Total assets (ROA)	0.3%	0.2%	0.1%

	31.12.2016	31.12.2015	Change amount
Net doubtful loans/Loans to customers	6.7%	5.4%	1.3%
Net non-performing loans/Loans to customers	13.4%	13.0%	0.4%
% Coverage of doubtful loans	57.7%	61.7%	-4.0%
% Total coverage of impaired loans	46.3%	48.1%	-1.7%
% Coverage of performing loans	0.66%	0.78%	-0.13%

Structure and productivity ratios

	31.12.2016	31.12.2015	Change amount	Change %
Number of employees	904	915	-11	-1.2%
Number of branches	122	126	-4	-3.2%
Amounts in thousands of Euro				
Loans and advances to customers per employee [3]	3,749	3,641	108	3.0%
Direct deposits from customers per employee [3]	3,620	3,685	-65	-1.8%

	31.12.2016	31.12.2015	Change amount	Change %
Operating income per employee [3]	174	170	4	2.4%
Result of operations per employee [3]	64	69	-5	-7.2%

[2] *equity excluding net profit (loss) for the period;*

[3] *based on the number of employees calculated as a straight average on 31.12.2016, while on 31.12.2015 based on the number of employees at year-end*

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 81.7% in this company.

The profit at 31 December 2016 came in at 7.2 million euro, a decrease of 17.3% on the figure of 8.7 million euro in the comparative period; results benefited from the reduction in *net impairment adjustments to loans and advances* to 40.7 million euro (formerly 59.1 million euro), which was absorbed by the lower contribution from *net trading income, hedging and the sale/repurchase of loans, financial assets and liabilities and financial assets and liabilities designated at fair value* of 4.3 million euro (formerly 9.3 million euro), the decline of about 6.4 million euro in *net interest income* due to the situation in the money market, by the *net provisions for risks and charges* of 1.5 million euro (compared with releases of 3.1 million euro in the prior period), by higher *operating costs* of 1.7 million euro and *non-recurring losses after taxation* of 4.7 million euro (2.4 million in the prior period), which includes a one-time provision to the "Income support solidarity fund" of 7.1 million euro, gross of the related tax effect, which was not present in the prior year.

Loans to customers increased from 3,331.4 million euro at the end of 2015 to 3,409.9 million euro at the reference date, an incidence of the deteriorated portfolio of 13.4% (formerly 13.0%).

Book Shareholders' equity has increased from 256.3 million euro at 31 December 2015 to 256.9 million at the reporting date, while Own funds (Total capital ratio) have gone from 248.5 euro at the end of 2015 to 249.9 million euro. The *Total capital ratio*, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 9.4% (9.8% at 31 December 2015).

8.3 - Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	%
Total assets	566,871	507,954	58,916	11.6%
Financial assets	15	15	0	0.0%
Due from banks	3,238	2,668	570	21.4%
Loans to customers	562,021	503,384	58,637	11.6%
Property, plant and equipment	84	90	-6	-6.7%
Intangible assets	687	861	-174	-20.2%
Due to banks	521,674	464,754	56,920	12.2%
of which Due to group banks	*521,529*	*464,478*	*57,051*	*12.3%*
Due to customers	3,047	4,254	-1,207	-28.4%
Shareholders' equity (including Net profit/loss for the period)	37,811	35,198	2,613	7.4%
Own Funds	32,251	30,860	1,391	4.5%

Income statement [1]

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	%
Operating income	14,890	11,733	3,156	26.9%
of which: Net interest income	*11,750*	*9,930*	*1,820*	*18.3%*
Operating costs	5,677	5,104	573	11.2%
Result of operations	9,454	6,630	2,824	42.6%
Profit (loss) from operations after tax	6,248	4,333	1,915	44.2%
Non-recurring profit (loss) after tax	-161	0	-161	n.s.
Net profit for the year	6,087	4,333	1,754	40.5%

[1] *from the reclassified income statement*

Key figures and ratios

	31.12.2016	31.12.2015	Change amount
Capital/Total assets	6.7%	6.9%	-0.2%
Capital/Loans to customers	6.7%	7.0%	-0.3%
Capital/Due to customers	7.2%	7.6%	-0.4%
Total Own Funds/Risk-weighted assets (Total capital ratio)	6.8%	10.0%	n.s.
Loans to customers/Total assets	99.1%	99.1%	0.0%
Due from banks/Total assets	92.0%	91.5%	0.5%

	31.12.2016	31.12.2015	Change amount
Oneri operativ i / Prov enti operativ i (Costi/Income ratio)	38.1%	43.5%	-5.4%
Net interest income/Operating income	78.9%	84.6%	-5.7%
Result of operations/Operating income	63.5%	56.5%	7.0%
Profit (loss) from operations after tax/Capital (2)	19.7%	14.0%	5.7%
ROE (2)	19.2%	14.0%	5.2%
Profit (loss) from operations before tax/Total assets (ROA)	1.1%	0.9%	0.2%

	31.12.2016	31.12.2015	Change amount
Sofferenze nette / Crediti v erso clientela	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.5%	0.6%	-0.1%
% Cov erage of doubtful loans	65.6%	59.1%	6.5%
% Total cov erage of impaired loans	35.4%	32.4%	3.0%
% Cov erage of performing loans	0.07%	0.07%	0.0%

Structure and productivity ratios

	31.12.2016	31.12.2015	Change amount	Change %
Number of employees	42	40	2	5.0%
Amounts in thousands of Euro	**31.12.2016**	**31.12.2015**	**Change amount**	**Change %**
Loans and adv ances to customers per employee (3)	13,708	12,585	1,123	8.9%
Operating income per employee (3)	363	293	70	23.9%
Result of operations per employee (3)	231	166	65	39.2%

(2) *equity excluding net profit (loss) for the period;*

(3) *based on the number of employees calculated as a straight average.*

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 100%.

The profit for the year ended 31 December 2016 was about 6.1 million euro, following an increase of 40.5% from 4.3 million euro in the comparative period; Net interest income was also higher at 11.7 million euro (formerly 9.9 million euro), as was net interest and other income at 11.4 million euro (formerly 9.6 million euro) and the results of operations at 9.5 million euro (formerly 6.6 million euro). The results for the year were affected by the one-time provision to the "Income support solidarity fund" of 0.2 million euro, gross of tax effect, which was not present in the prior year.

Loans to customers increased from 503.4 million euro at the end of 2015 to 562.0 million euro at the reference date, an incidence of 0.5% of the deteriorated portfolio (formerly 0.6%).

Shareholders' equity has increased from 35.2 million euro at 31 December 2015 to 37.8 million at the reporting date, while Own funds have gone from 30.9 euro at the end of 2015 to 32.3 million euro.

Following registration as a financial intermediary pursuant to art. 106 CFA, the company is required to comply with Bank of Italy Circular 288 dated 3 April 2015 and the articles of EU Regulation 575/2013, which include a definition of the elements comprising "Own Funds", which is the reference parameter for the capital requirements imposed on financial intermediaries. These requirements are more strict than those previously required for the weighting of assets. For these reasons, the Tier 1 coefficient at the reference date of 6.82% is not comparable on a consistent basis with the 9.96% reported at 31 December 2015.

9 - Other information

9.1 - Treasury shares

At 31 December 2016, as was the case at the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and it did not trades in treasury share or shares of its parent company, directly or through a trustee or other person. .

9.2 - Ratings

On 27 June 2016, following its annual review, Fitch awarded the following new ratings to the Parent Company:

- Long term IDR "BBB-" Outlook Stable (formerly "BBB" Outlook Stable)
- Viability Rating "bbb-" (formerly "bbb")

and left the following rating unchanged:

- Short term IDR confirmed at "F3"
- Support Rating confirmed at "5"
- Support Rating Floor confirmed at "No Floor".

9.3 – Transactions with related parties and associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated persons (pursuant to art. 53 of the CFA), 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, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2016 are disclosed in Part H of the explanatory notes.

9.4 – Information on incentive plans

With the substitute payment of an equivalent amount in the month of June 2016 to all beneficiaries of the 2011-2013 Stock Grant Plan, the Plan is to be considered to all effects concluded. There are no more equity-based payments.

9.5 – Report on the adoption of the code of conduct for listed companies

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Group's website, along with this report on operations, and to which reference should be made.

9.6 – Research and development activities

In its capacity as Parent Company, Banco di Desio e della Brianza S.p.A., as described in paragraph 6.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, simple and more flexible; the customers of the Group's banks have access to the latest versions of the home and mobile banking platforms, which facilitate banking transactions using up-to-date technologies on multiple devices (pc, *smartphone*, *phablet*, *tablet*), operating systems (*windows*, *android*, *ios*) and browsers. At the same time, work continues on expansion of the services offered by internet banking, including the *Jiffy* payment system.

The virtualisation project has encouraged use of the advanced electronic signature for transactions at the Group's branches, with the replacement of workstations with advanced technologies including graphics tablets. The project continues with work to set up the electronic signature of contracts, in close correlation with project to revise the mobile platform used by BPS financial consultants, who will be equipped with *pc/phablet* in order to work paperless off site, including use of the advance electronic signature.

9.7 – Opt-out from obligation to publish information documents for extraordinary operations pursuant to Consob regulations

Pursuant to art. 3 of Consob resolution no. 18079 of 20 January 2012, the Parent Company has exercised its right to opt-out as provided by art. 70, paragraphs 8 and by art. 71, paragraph 1-bis of Consob Regulation 11971/99, effectively exercising its right to opt-out from the obligation to publish information documents required by Attachment 3B of the aforementioned Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

10 - Main risks and uncertainties and outlook for the rest of the year

The consolidated financial statements at 31 December 2016 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future. The capital and financial structure and operating performance of the Group provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in the 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 Part E of the explanatory notes – Information on risks and related hedging policy.

Furthermore, explanatory notes on the levels of control in the management control and coordination function and on the internal control system are included in the relevant paragraphs of this report, with references made, for further detailed information, to the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Finally, based on the information currently available, the outlook for the operations of the Banco Desio Group over the coming year involves:

- further pressure on interest income, given continuation of the ECB's highly expansive monetary policy, which may be offset by a steady improvement in commission income, especially due to the effect of commercial activity to broaden the customer base and develop services in the areas of asset management, home mortgages, consumer credit, export and import services for SMEs, and "personal protection" by life and non-life policies, among the principal objectives identified in the Group's business model;
- a possible reduction in the cost of lending due to the intensive commercial and lending activity designed to steadily improve the quality of customer relationships and performing loans, as well as the effect of the steadily reduced flow of new impaired loans already seen during 2016;
- constant attention to cost management throughout the entire chain of cost-generating activities, which together with the further containment of payroll costs linked to the voluntary redundancy programme implemented successfully in 2016 (although the greatest effects will be seen in future years), will confirm the benefits deriving from the continuous pursuit of organisational efficiency, despite the impact of the cost of contributing to the SRM and the Interbank Deposit Guarantee Fund.

Desio, 9 February 2017

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2016	31.12.2015	Change amount	Change %
10. Cash and cash equiv alents	50,472	62,306	(11,834)	-19.0%
20. Financial assets held for trading	20,053	16,038	4,015	25.0%
40. Financial assets av ailable for sale	1,848,164	1,881,131	(32,967)	-1.8%
60. Due from banks	112,838	292,992	(180,154)	-61.5%
70. Loans to customers	9,720,108	9,386,311	333,797	3.6%
80. Hedging deriv ativ es	2,591	4,601	(2,010)	-43.7%
90. Adjustment to financial assets with generic hedge (+/-)	1,543	1,408	135	9.6%
100. Equity inv estments	0	13,261	(13,261)	-100.0%
120. Property, plant and equipment	181,201	184,983	(3,782)	-2.0%
130. Intangible assets	17,843	18,207	(364)	-2.0%
of which:				
- goodwill	*15,322*	*15,322*		
140. Tax assets	233,410	224,266	9,144	4.1%
a) current	*36,408*	*29,105*	*7,303*	*25.1%*
b) deferred	*197,002*	*195,161*	*1,841*	*0.9%*
of which Law 214/2011	*164,834*	*173,678*	*(8,844)*	*-5.1%*
150. Non-current assets and disposal groups held for sale	0	4,967	(4,967)	-100.0%
160. Other assets	177,680	157,659	20,021	12.7%
Total assets	**12,365,903**	**12,248,130**	**117,773**	**1.0%**

LIABILITIES

Liabilities and shareholders' equity	31.12.2016	31.12.2015	change amount	change %
10. Due to banks	962,245	753,115	209,130	27.8%
20. Due to customers	8,729,591	8,244,110	485,481	5.9%
30. Debt securities in issue	1,393,884	1,918,104	(524,220)	-27.3%
40. Financial liabilities held for trading	6,230	5,148	1,082	21.0%
50. Financial liabilities designated at fair v alue through profit and loss	15,908	22,828	(6,920)	-30.3%
60. Hedging deriv ativ es	6,637	24,758	(18,121)	-73.2%
80. Tax liabilities	27,367	31,616	(4,249)	-13.4%
a) current	*718*	*75*	*643*	*n.s.*
b) deferred	*26,649*	*31,541*	*(4,892)*	*-15.5%*
90. Liabilities associated with assets held for sale	0	754	(754)	-100.0%
100. Other liabilities	220,054	249,205	(29,151)	-11.7%
110. Prov ision for termination indemnities	30,204	29,712	492	1.7%
120. Prov isions for risks and charges:	55,282	46,725	8,557	18.3%
b) other provisions	*55,282*	*46,725*	*8,557*	*18.3%*
140. Valuation reserv es	11,755	21,767	(10,012)	-46.0%
170. Reserv es	746,964	726,660	20,304	2.8%
180. Share premium reserv e	16,145	16,145		
190. Share capital	67,705	67,705		
210. Minority interests	50,381	51,606	(1,225)	-2.4%
220. Net profit (loss) for the period (+/-)	25,551	38,172	(12,621)	-33.1%
Total liabilities and shareholders' equity	**12,365,903**	**12,248,130**	**117,773**	**1.0%**

CONSOLIDATED INCOME STATEMENT

	31.12.2016	31.12.2015	change amount	change %
10. Interest and similar income	307,107	363,666	(56,559)	-15.6%
20. Interest and similar expense	(70,915)	(102,131)	31,216	-30.6%
30. Net interest income	**236,192**	**261,535**	(25,343)	-9.7%
40. Commission income	171,269	182,394	(11,125)	-6.1%
50. Commission expense	(20,292)	(21,344)	1,052	-4.9%
60. Net commission income	**150,977**	**161,050**	(10,073)	-6.3%
70. Dividends and similar income	5,509	299	5,210	n.s.
80. Net trading income	3,456	7,310	(3,854)	-52.7%
90. Net hedging gains (losses)	(792)	(1,170)	378	-32.3%
100. Gains (losses) on disposal or repurchase of:	15,822	26,315	(10,493)	-39.9%
a) loans	*(1,710)*	*(1,915)*	*205*	*-10.7%*
b) financial assets available for sale	*18,849*	*31,500*	*(12,651)*	*-40.2%*
d) financial liabilities	*(1,317)*	(3,270)	*1,953*	*-59.7%*
110. Net results on financial assets and liabilities designated at fair value	(60)	(221)	161	-72.9%
120. Net interest and other banking income	**411,104**	**455,118**	(44,014)	-9.7%
130. Net impairment adjustments to:	(92,401)	(144,822)	52,421	-36.2%
a) loans	*(90,138)*	*(143,429)*	*53,291*	*-37.2%*
b) financial assets available for sale	*(2,265)*	*(384)*	*(1,881)*	*489.8%*
d) other financial assets	2	*(1,009)*	*1,011*	*n.s.*
140. Net profit from financial activities	**318,703**	**310,296**	8,407	2.7%
170. Net profit from financial and insurance activities	**318,703**	**310,296**	8,407	2.7%
180. Administrative costs:	(333,838)	(312,904)	(20,934)	6.7%
a) payroll costs	*(202,501)*	*(179,772)*	*(22,729)*	*12.6%*
b) other administrative costs	*(131,337)*	*(133,132)*	*1,795*	*-1.3%*
190. Net provisions for risks and charges	(3,779)	(4,934)	1,155	-23.4%
200. Net adjustments to property, plant and equipment	(8,114)	(7,972)	(142)	1.8%
210. Net adjustments to intangible assets	(1,978)	(1,661)	(317)	19.1%
220. Other operating charges/income	48,943	49,704	(761)	-1.5%
230. Operating costs	**(298,766)**	**(277,767)**	(20,999)	7.6%
240. Profit (loss) from equity investments	7,616	10,764	(3,148)	-29.2%
270. Gains (losses) on disposal of investments		2	(2)	-100.0%
280. Profit (loss) from current operations before tax	**27,553**	**43,295**	(15,742)	-36.4%
290. Income taxes on current operations	(2,016)	(5,697)	3,681	-64.6%
300. Profit (loss) from current operations after tax	**25,537**	**37,598**	(12,061)	-32.1%
320. Net profit (loss) for the period	**25,537**	**37,598**	(12,061)	-32.1%
330. Net profit (loss) pertaining to minority interests	14	574	(560)	-97.6%
340. Parent Company net profit (loss)	**25,551**	**38,172**	(12,621)	-33.1%

	31.12.2016	31.12.2015
Basic earnings per share (Euro)	0.19	0.29
Diluted earnings per share (Euro)	0.19	0.29

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	31.12.2016	31.12.2015
10.	**Net profit (loss) for the period**	**25,537**	**37,598**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined-benefit pension plans	(496)	1,235
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	-	(4,870)
90.	Cash-flow hedges	(1,846)	63
100.	Financial assets available for sale	(7,438)	(2,050)
110.	Non-current assets and disposal groups held for sale	-	-
120.	Portion of the valuation reserves of the equity investments carried at equity	(772)	(113)
130.	**Total other elements of income (net of income taxes)**	**(10,552)**	**(5,735)**
140.	**Total comprehensive income (Captions 10+130)**	**14,985**	**31,863**
150.	Total comprehensive income pertaining to minority interest	554	101
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**15,539**	**31,964**

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY AT 31.12.2016

	Balance at 31.12.2015	Changes in opening balances	Balance at 01.01.2016	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.12.2016	Minority interests at 31.12.2016
							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	Changes in equity investments	Comprehensive income at 31.12.2016		
Share capital:																
a) ordinary shares	118,578		118,578										(96)		60,840	57,642
b) other shares	6,865		6,865												6,865	
Share premium reserv e	31,569		31,569										1		16,145	15,425
Reserv es:																
a) from profits	683,485		683,485	26,009		(1,856)									733,168	(25,530)
b) other	22,611		22,611			(4,999)									13,796	3,816
Valuation reserv es:	21,400		21,400											(10,552)	11,755	(907)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	37,598		37,598	(26,009)	(11,589)									25,537	25,551	(14)
Group shareholders' equity	**870,449**		**870,449**		**(11,589)**	**(6,279)**								**15,539**	**868,120**	
Minority interests	**51,606**		**51,606**			**(576)**							**(95)**	**(554)**		**50,381**

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AT 31.12.15

	Balance at 31.12.2014	Changes in opening balances	Balance at 1.01.2015	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: 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	Changes in equity investments	Comprehensive income at 31.12.2015	Group shareholders' equity at 31.12.2015	Minority interests at 31.12.2015
Share capital:																
a) ordinary shares	121,161		121,161										(2,583)		60,840	57,738
b) other shares	6,865		6,865												6,865	
Share premium reserv e	38,813		38,813										(7,244)		16,145	15,424
Reserv es:																
a) from profits	642,801		642,801	29,423		406						1,110	9,745		707,634	(24,149)
b) other	23,927		23,927									(1,316)			19,026	3,585
Valuation reserv es:	27,135		27,135											(5,735)	21,767	(367)
Equity instruments																
Treasury shares	(75)		(75)										24			(51)
Net profit (loss) for the period	39,427		39,427	(29,423)	(10,004)									37,598	38,172	(574)
Group shareholders' equity	**845,627**		**845,627**		**(10,004)**	**406**						**(206)**	**2,662**	**31,964**	**870,449**	
Minority interests	**54,427**		**54,427**										**(2,720)**	**(101)**		**51,606**

CONSOLIDATED CASH FLOW STATEMENT

	31.12.2016	31.12.2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**151,733**	**301,186**
- interest received (+)	305,648	370,965
- interest paid (-)	(75,627)	(104,722)
- dividends and similar income (+)		
- net commission income (+/-)	152,028	161,441
- payroll costs (-)	(202,499)	(184,138)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(106,676)	(118,190)
- other revenues (+)	80,875	133,504
- taxation (-)	(2,016)	42,326
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(270,199)**	**58,091**
- financial assets held for trading	(4,256)	5,628
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	27,271	(4,197)
- loans to customers	(450,856)	76,528
- due from banks: on demand	103,451	(36,226)
- due from banks: other receivables	76,771	29,466
- other assets	(22,580)	(13,108)
3. Cash generated (absorbed) by financial liabilities	**102,621**	**(342,801)**
- due to banks: on demand	3,619	(34,413)
- due to banks: other payables	205,511	(229,889)
- due to customers	485,481	799,068
- debt securities in issue	(518,010)	(875,328)
- financial liabilities held for trading	629	1,512
- financial liabilities designated at fair value through profit and loss	(8,607)	1,271
- other liabilities	(66,002)	(5,022)
Net cash generated/absorbed by operating activities (A)	**(15,845)**	**16,476**
B. INVESTING ACTIVITIES		
1. Cash generated by - sale of equity investments	**18,781**	**530**
	13,261	
- dividends collected on equity investments	5,509	299
- sale/redemption of financial assets held to maturity		
- sale of property, plant and equipment	11	152
- sale of intangible assets		
- sale of lines of business		79
2. Cash absorbed by	**(5,957)**	**(12,234)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property, plant and equipment	(4,343)	(10,669)
- purchase of intangible assets	(1,614)	(1,565)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**12,824**	**(11,704)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,589)	(8,830)
Net cash generated/absorbed by financing activities (C)	**(11,589)**	**(8,830)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(14,610)**	**(4,058)**

RECONCILIATION

Captions	31.12.2016	31.12.2015
Cash and cash equivalents at beginning of period	**62,306**	**62,890**
Net increase (decrease) in cash and cash equiv alents	(14,610)	(4,058)
Cash and cash equiv alents: effect of changes in exchange rates	2,776	3,474
Cash and cash equivalents at end of period	**50,472**	**62,306**

Consolidated explanatory notes

PART A - ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the consolidated financial statements of the Banco Desio Group are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2016 and endorsed by the European Commission.

Section 2 - Basis of preparation

The consolidated financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.

For the preparation of the consolidated financial statements, reference was made to the Bank of Italy Circular 262 of 22 December 2005 as subsequently updated on 15 December 2015. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The 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 year.

The consolidated 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. The accounting policies are consistent with those used for the preparation of the consolidated financial statements of the previous year.

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

International accounting standards applicable from 2016

The following amendments approved by the European Commission on 18 December 2015 have become applicable from 1 January 2016:

Amendment to IAS 1

Presentation of financial statements (published by the IASB on 18 December 2014), which provides limited amendments to IAS 1 aimed at clarifying certain disclosure requirements, such as: Materiality and aggregation, Statement of financial position and statement of comprehensive income, Presentation of items of Other Comprehensive Income ("OCI"), Explanatory notes.

Amendment to IAS 27

Separate financial statements (published by the IASB on 12 August 2014) which introduces the option of using the equity method for the valuation of investments in subsidiaries, jointly controlled entities and associate in the separate financial statements of an entity.

International accounting standards endorsed at 31 December 2016 with application after 2016

IFRS 9 - Financial instruments

On 29 November 2016, EU Official Gazette L 323/1 published Commission Regulation (EU) 2016/2067 of 22 November 2016 on International Financial Reporting Standard 9.

The International Accounting Standards Board (IASB) had previously published International Financial Reporting Standard (IFRS) 9 – Financial instruments on 24 July 2014. This standard seeks to improve the disclosures made about financial instruments, in order to tackle the problems that emerged during the financial crisis. The adoption of IFRS 9 involves amendments to the following international accounting standards (IAS) 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19, and the interpretation of the Standing Interpretations Committee (SIC) 27, in order to ensure consistency among the various international accounting standards.

The new standard, which applies from 1 January 2018, introduces new criteria for the classification and measurement of financial assets and financial liabilities. Moreover, with reference to the impairment model, the new standard requires that the estimate of loan losses be based on the model of "expected losses" (as opposed to "incurred losses"), using information that has support and is available without unreasonable charges or efforts, including historical, current and future data. The standard establishes, in particular, that:

- the impairment model applies to all financial instruments that are not measured at fair value throughout profit or loss;
- the financial instruments subject to impairment testing are allocated to three classes (stages/buckets), each of which defines and measures impairment in a different way.

Lastly, the standard introduces a new hedge accounting model; the changes relate solely to general hedges and are closely tied to the decision of the Group to make use of the opt-in / opt-out option (being the ability to implement the new IFRS 9 for the management of specific hedges in combination with IAS 39 for the management of macro fair value hedges, rather than continue to apply IAS 39 for all types of hedge).

Section 3 - Scope of consolidation and methodology

1.Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Fides S.p.A.	Rome	1	Banco Desio	100.000
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.701

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

Compared with the situation at 31 December 2015, there have been the following changes:

- The following companies have been excluded from the scope of consolidation: Credito Privato Commerciale S.A. in liquidation and Rovere Societé de Gestion S.A. in liquidation, following *loss of control* by the Parent Company pursuant to IFRS 10 - Consolidated Financial Statements, as it is no longer "*exposed to variable returns, has no rights over those returns and cannot affect those returns*", because the liquidation process has essentially been completed. The liquidation activities continue for both companies for the sole purpose of achieving their cancellation from the respective commercial registers.
- Elimination of the SPV Spoleto Mortgages S.r.l., whose separate assets had been formed through the sale of performing loans by Banca Popolare di Spoleto S.p.A., following the early termination of the securitisation on 25 February 2016, with which Banca Popolare di Spoleto repurchased its portfolio of outstanding receivables and the SPV repaid the Notes it had issued in full.
- The following companies have also been excluded from consolidation: Chiara Assicurazioni S.p.A. and Istifid S.p.A., as these former associates of the Parent Company have been sold.

The comparative figures in the prior year consolidated balance sheet included the reclassification required by IFRS 5 for the assets and liabilities of Rovere Societé de Gestion S.A. in liquidation, which has been excluded from the scope of consolidation in the meantime.

Note that this shareholding in BPS may also decrease to 76.31% if there are other conversions into BPS ordinary shares of the warrants assigned by 30 June 2017 (the end of the exercise period set by the warrant regulations).

2. Significant assessments and assumptions in determining the scope of consolidation

The scope of consolidation is determined in accordance with the provisions contained in IFRS 10 - *Consolidated Financial Statements*. Accordingly, the Parent Company consolidates an entity when the three elements of control are met:

1. power over an investee;

2. exposure, or rights, to variable returns from its involvement with the investee;
3. ability to use its power over the investee to affect the amount of the investor's returns.

Generally, when an entity is held directly through voting rights, control comes from holding more than half of the voting rights. In other cases, the assessment of control is more complex and requires greater use of judgement, as it means taking into account all relevant factors and circumstances that could lead to control over the entity, such as:

- the purpose and design of the entity,
- the relevant activities, that is, the activities that significantly affect the entity's returns and how they are governed;
- any right, arising from contractual arrangements, that gives the investor the ability to direct the relevant activities, that is, the power to establish the entity's financial and operating policies, the power to exercise the majority of voting rights at meetings of the governing body or the power to appoint or remove the majority of the members of the governing body;
- the Group's exposure to variability of the returns.

3. Investments in subsidiaries with significant minority interests

3.1 Minority interests, voting rights of third parties and dividends paid to third parties

Name	Minority interests %	Dividends paid to third parties
Banca Popolare di Spoleto S.p.A.	18.299	350

3.2 Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Banca Popolare di Spoleto S.p.A.	4,105,712	26,276	379,865	51,106	8,200	256,856	95,459	150,984	(103,795)	6,587	7,220	-	7,220	(4,731)	2,489

3 Significant restrictions

There are no significant restrictions (e.g. legal, contractual or regulatory restrictions) on the Parent Company's ability to access the assets, or to use them, and to pay off the liabilities of the Group, such as restrictions on the ability of the Parent Company or its subsidiaries to transfer cash or limitations on transfers of funds in the form of dividends, loans or advances granted to (or from) other Group companies.

4 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 (this policy was not applicable at the reporting date, since the Parent Company does not hold any investments in associates).

Section 4 - Subsequent events

Supervisory Review and Evaluation Process (SREP) 2016

Following completion of the *Supervisory Review and Evaluation Process (SREP)* in 2016, on 9 January 2017 the Bank of Italy notified Banco di Desio e della Brianza of its decision on the capital requirements of the Banco Desio Group, which must be applied at consolidated level from the first report on own funds filed after the notification date (i.e. 31 March 2017). Further information is provided in section 7.4 "Shareholders' equity and capital adequacy" of the Report on operations.

Section 5 - Other aspects

Project for the implementation of IFRS 9 - Financial instruments

The Banco Desio Group has commenced a specific project to analyse the impact of the accounting standard and guide its implementation, in order to ensure regulatory compliance by the application date. Following approval from the Board of Directors of the Parent Company on 4 August 2016, a leading firm of consultants has been engaged to provide methodological support to the Banco Desio Group during the process of implementing the new standard.

A Steering Committee has been established, involving the Administration Department, the Risk Management Department, the Organisation and Systems Department and the "Business" Department, in order to:

- ensure the proper scaling of the Working Parties (WP),
- define guidelines and direct the activities to be carried out,
- validate the results and decide on matters that are significant for the project.

The project is organised into "classification and measurement" and "impairment" work areas and envisages the following phases:

- initial assessment and preliminary decisions (mainly accounting and model related);
- design of the target operating model and definition of the related IT impact;
- implementation, in terms of organisational and application development and impact analysis.

The assessment and design phases include various impact simulations (on the models used to determine macro write-downs, financial statements, own funds and supervisory parameters).

At this time, the assessment phase has essentially been completed and, in particular,

- with specific reference to the classification and measurement of financial instruments, has:
  - defined the scope of the financial instruments affected;
  - defined the methodology for the SPPI test *(Sole Payments of Principal and Interest)* and completed a qualitative analysis of the characteristics of the products and the related clauses associated with them;
  - identified the clauses that might result in failure to pass the SPPI test, with consequent obligation to measure the financial instruments at fair value through profit or loss;
  - for the loans portfolio, modular analyses are in progress, having regard for the significance of the loan products and their similarity
  - completed an SPPI test analysis for the securities portfolio;
- with specific reference to the impairment of financial instruments not measured at fair value through profit or loss:
  - identified the first set of criteria for allocating the financial instruments of the banks in the Banco Desio Group into three stages with different credit quality and, consequently, different methods for the determination of impairment;
  - defined the construction of an initial impairment model in order to carry out simulations for the calculation of expected loss.

At the same time, Cedacri S.p.A., the supplier of outsourced IT procedures, is carrying out a specific project together with its customer banks to align the outsourced processes and systems in conformity with the requirements of the new standard. In this regard, one of the objectives of the project launched by the Banco Desio Group is to help guide the methodological decisions made by the IT outsourcer, considering the appropriate "specifications" for compliance with the requirements of the standard.

Given the progress made by the project, the first simulations have not produced estimates that are deemed sufficiently reliable to quantify the effects on capital of the new standard, as they were made using certain assumptions and parameters that are merely approximations with respect to the final requirements and decisions that will have to be made. In addition, the simulations are also unreliable as they were made with reference to the situations existing at the reference dates, being 31 December 2015 or 30 June 2016, which do not reflect subsequent changes in the balance sheet aggregates analysed, due to changes in the economic situation and the related operational decisions made by management; accordingly, the simulations cannot be considered representative of the situation that may exist when the new standard comes into force.

Use of estimates and assumptions in preparing the consolidated financial statements

Preparing the consolidated financial statements also requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement.

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;
- 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 valuation of the assets acquired and liabilities taken on at their fair value as part of the business combination.

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 consolidated financial statements.

Contribution to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS)

The European directives governing the resolution mechanisms of banks belonging to the European Union and the functioning of the deposit guarantee schemes came into force during 2015. These involved in particular:

- Directive 2014/59/EU (the so-called "Bank Recovery and Resolution Directive" or BRRD) adopted by the national law with Legislative Decree 180 of 16 November 2015, defines the new resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by *ex ante* contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called "*Deposit Guarantee Schemes* Directive" or DGSD) adopted by the national law with Legislative Decree 30 of 15 February 2016, provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex-ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid by the banks in the Group have been charged to income statement caption “150 b) Other administrative costs”, as indicated in the Bank of Italy communications dated 19 January 2016.

Comparability of consolidated financial statements

For each account in the consolidated financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted. However, in the case of business combinations (such as mergers, transfers or acquisitions of business units), the comparative figures for the previous year in the consolidated financial statements are those shown in the previous financial statements.

As required by IFRS 5, at 31 December 2015 the assets and liabilities of Rovere Societé de Gestion S.A. and Istifid S.p.A. were reclassified to caption "150 – Non-current assets and disposal groups held for sale" and caption "90 – Liabilities directly associated with disposal groups".

Domestic tax group election

Banco di Desio e della Brianza and the Italian companies of the Banco Desio 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 consolidated financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

A.2 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 principal market on the assessment date or, in the absence thereof, on the most advantageous market (*fair value level 1*).

Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by 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:

-a 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*).

Mutual funds that are traded in an active market are measured at the closing price observable on the principal market on the assessment date or, in the absence thereof, on the most advantageous market *(Level 1)*. Mutual funds 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 Mutual funds 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 Mutual funds 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.

In the case of assets available for sale with fair value hedges, the change in fair value related to the risk being hedged is recognised in the income statement under "Net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument, while changes in fair value not related to the risk being hedged are recorded in equity to offset the valuation reserves.

In the presence of cash flow hedges of assets available for sale, the fair value changes are recorded under shareholders' equity; please refer to the section on "Hedging transactions" for a description of the gains and losses on the hedging instrument.

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.

In the case of loans acquired through business combinations, their initial recognition in the consolidated financial statements is made at fair value at the acquisition date.

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 receivables from finance lease transactions, repurchase agreements with an obligation to resell and receivables sold to the SPV which do not meet the requirements of IAS 39 for derecognition (please refer to the section entitled "Securitisations" in "Other information" of the present Part A).

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 non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.

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 by applying the criteria laid down in the Lending Policies, 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.

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 valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.

The EBA standards have also introduced the definition of forborne exposures. Credit exposures are “forborne” when, due to the deterioration of the economic-financial condition of the debtor (financial difficulties), the original contractual conditions are amended or the loan is refinanced, in whole or in part. The exposures subject to forbearance may be classified among the categories of impaired loan (non-performing, unlikely to pay, past due and impair past due) or as performing loans. The accounting policies for the assessment of forborne exposures and the related provisions follow the general criterion established in IAS 39.

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 securities held in the "Loans and receivables" portfolio are evaluated periodically to determine whether there is objective evidence of any impairment. According to the provisions of paragraph AG84 of IAS 39, such impairment is measured as the difference between the carrying amount of the asset and the *fair value* of the instrument measured using an observable market price.

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*.

The *fair value* is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured

by the CRS model. In general, they are classified at Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2).
The credit exposures subject to fair value hedging after initial recognition are measured at fair value. If the hedging relationship is ineffective, the loans are again valued at amortised cost. The difference between the *fair value* and amortised cost recognized on the last date on which the hedging relationship was effective is recognised in the income statement and amortised over the residual life of the loan.

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.

In the case of loans acquired through business combinations, any higher value recorded in the consolidated financial statements on initial recognition is released through the income statement over the life of the loan, based on the repayment plan, or in full in the year that the loan is repaid.

Loans subject to fair value hedges, are measured at fair value and changes in value are recognised in the income statement under "net hedging gains (losses)", in the same way as the changes in *fair value* of the hedging instrument.

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 may be:

- Fair Value Hedges (micro hedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);
- Cash-Flow Hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Measurement

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); with specific reference to OTC hedging derivatives, the model applied is the Credit Value Adjustment and Debit Value Adjustment.

A hedging transaction is defined as effective if the changes in *fair value* (or future 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.

Recognition of items affecting the income statement – Fair value hedges

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. This provision applies even when the hedged item is measured at cost.

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.

Recognition of items affecting the income statement – Cash-Flow Hedges

The gain or loss on the hedging instrument has be treated as follows:

- the share of the gain or loss defined as effective is recorded in equity as a contra-entry to the valuation reserves;
- the ineffective portion of the hedge is booked to the income statement.

In particular, equity has to include the lower of the total gain or loss on the hedging instrument from the start of it and the overall change in fair value (present value of expected cash flows) on the hedged element from the beginning of the hedge. Any remaining gain or loss on the hedging instrument or the ineffective portion is recognised in the income statement.

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. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Classification

Equity investments are classified as investments in associates in accordance with IAS 28, or as investments in companies subject to joint control, as defined in IFRS 11. 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 recorded in 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.

Non-current assets and disposal groups held for sale

Recognition

Non-current assets and disposal groups held for sale are measured at the time of initial recognition at the lower of book value and fair value less costs to sell.

Classification

These captions include non-current assets and groups of assets held for sale, when the book value will be recovered principally through a sale transaction that is considered highly probable, rather than through continued use.

In accordance with IFRS 5, so-called "discontinued operations" (i.e. assets sold or held for sale) are also recognised, if they:

- represent a significant line of business or geographical area of operations;
- form part of a single coordinated plan to dispose of a significant separate line of business or geographical area of operations;
- involve a subsidiary acquired solely with a view to reselling it.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, non-current assets and disposal groups held for sale are valued at the lower of book value and fair value less costs to sell. The related income and expenses (net of taxes) are presented in the income statement under a separate item called "Profit (loss) after tax on non-current assets held for sale" when they relate to discontinued operations.

Derecognition

Non-current assets and groups of assets held for sale are eliminated from the balance sheet on disposal.

Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a manner consistent 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.

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.

Only when a business combination is being carried out in accordance with IFRS 3, the buyer can recognise a contingent liability in the consolidated financial statements at the acquisition date, measured at fair value. Contrary to what is laid down in IAS 37, the buyer can recognise a contingent liability in a business combination at the acquisition date even if it is unlikely that resources that could generate economic benefits will be used to meet the obligation.

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. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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. When such financial liabilities are taken on as the result of a business combination, initial recognition in the consolidated financial statements is carried out at the acquisition date. In any case, 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 Banco Desio 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 replacement of own securities previously repurchased is considered as a new issue at the sale value.

Currency transactions

Recognition

Currency transactions are recorded in accordance with IAS 21 - *Effects of changes in foreign exchange rates* 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 are recognized in equity.

In accordance with International Standard IAS 21, the cumulative exchange differences on foreign investments may be recorded in the consolidated financial statements and to the income statement in the event of disposal of the investment. In particular, as provided by paragraph 49 of IAS 21 a foreign investment may be totally or partially disposed of through sale, liquidation, repayment of share capital or abandonment of all or part of it. Substantial conclusion of the liquidation of an investment in a foreign operation therefore involves reclassification of the exchange differences identified from equity to net profit (loss) for the period.

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 interests;

  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.

  Note that interest income (or interest expense) in the consolidated financial statements also includes amortisation for the year of the fair value differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (Caption 130. Net impairment adjustments to loans and receivables).

- 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.

Securitisations

Loans and receivables subject to securitisation transactions completed prior to first-time adoption (FTA) of international accounting standards are not recognised in the financial statements in accordance with the extension option provided by IFRS 1, which makes it possible to avoid booking non-derivative financial assets/liabilities sold or deleted before the date of transition to IFRS (1 January 2004). Exposures to securitisations (in the form of junior securities or deferred purchase price) are classified as loans. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[1] introduced by IFRS 10, it is included within the Group's scope of consolidation.

According to the breakdown by type, loans and receivables include loans subject to securitisations subsequent to 1 January 2004, which do not have the requisites under IAS 39 for elimination from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.

Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the Bank, is allocated to amounts due to customers.

Both assets and liabilities are measured at amortised cost and the related interest is recorded in the income statement.

[1] Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.

A.3 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.

On the other hand, as regards transfers in previous years, it should be noted that in 2008 Banca Popolare di Spoleto applied the "Reclassification of financial assets" with which the IASB amended IAS 39 and IFRS 7 in October 2008.

Under this amendment, on 1 July 2008 Banca Popolare di Spoleto transferred:

- € 56 million (book value) of debt securities from the HFT portfolio to the portfolio of loans to customers and due from banks;
- € 31.3 million (book value) of debt securities from the AFS portfolio to the portfolio of loans to customers and due from banks;
- € 124.8 million (book value) of securities, of which about € 118.8 million of Treasury Credit Certificates, from the HFT portfolio to the AFS portfolio.

The Bank did not carry out any other reclassifications in subsequent years.

The following table shows the book values and fair values at 31 December 2016 of the residual financial instruments that were reclassified in 2008, as well as the valuation and other results (interest and gains/losses on disposals) that such instruments would have generated for Banca Popolare di Spoleto in the reference period if they had not been transferred ("Income components in the absence of transfer"). The columns "Income components recorded during the period" show the valuation and other results that the Bank actually recorded on such instruments during the reporting period.

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

Type of financial instrument	Source portfolio	Destination portfolio	Book value at 31.12.2016	Fair value at 31.12.2016	Income components in the absence of transfer (before tax)		Income components recorded during the period (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	HFT	L&R - banks	6,343	6,377	104	86		142
Debt securities	HFT	L&R - customers	0	0	0	0		0
Debt securities	AFS	L&R - banks	2,797	3,082	55	95		112
Debt securities	AFS	L&R - customers	1,085	1,125	(1)	27		29
Total			**10,225**	**10,584**	**158**	**208**	**0**	**283**

The portfolio transfers were performed in October 2008 (with a value date of 1 July 2008) as a result of the exceptional liquidity crisis affecting international financial markets, making it impossible to determine a reliable fair value for many securities that ceased to have an "active market". At present, the bank expects to recover in full the carrying value of the securities transferred.

A.4 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 2 and 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.

A.4.1 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.

Also worth noting is the application of the *Credit Value Adjustment (CVA)* model for OTC derivatives, in order to highlight the impact of the counterparty's credit quality, an intrinsic factor in the pricing of bonds, but not of derivatives. The method applied consists of determining the fair value by discounting the derivative's positive mark to market (MTM) over the residual life of the instrument using the weighted credit spread.

On the other hand, as regards OTC derivatives with a negative MTM, the model applied is the Debit Value Adjustment (DVA), with the aim of highlighting, for each legal entity of the Group, the impact of its own creditworthiness. The model applies the same formula of discounting the CVA to the negative value (MTM) of the derivative including the credit spread of each legal entity.

It should be noted that, in the application of both models (CVA and DVA) and for the purpose of determining the impact of the counterparty's credit quality, or the quality of its credit rating, account has been taken of the effect of reducing credit risk in the presence of collateralisation agreements (CSA).

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.

A.4.2 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, except for the below description.

A.4.3 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.

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	5,535	11,872	2,646	14	13,558	2,466
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,697,521	118,598	32,045	1,695,096	162,184	23,851
4. Hedging derivatives		2,591			4,601	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,703,056**	**133,061**	**34,691**	**1,695,110**	**180,343**	**26,317**
1. Financial liabilities held for trading		4,074	2,156		3,132	2,016
2. Financial liabilities designated at fair value through profit and loss		15,908			22,828	
3. Hedging derivatives		6,637			24,758	
Total		**26,619**	**2,156**		**50,718**	**2,016**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (1.85% compared with 1.38% at end-2015). These investments consist primarily of non-controlling interests classified as "Financial assets available for sale".

Given the nature and, in any case, the insignificance of the amount, as in the case of minority investments carried at cost because updated current values are unavailable or cannot be estimated and the valuation of units in mutual funds applying the liquidity discount envisaged in the policy, the sensitivity analysis for this caption was carried out in relation to the quotas in Fondo Atlante, the asset deriving from the Voluntary Scheme support provided to CaRiCesena and the shares in Cedacri S.p.A.; considering an adjustment of 35% of the stock market multiples or the application of a liquidity discount of 20% or an increase of 100 bps in the cost of equity Ke, the analysis shows a reduction in the *fair value* of the *level 3* "Financial assets available for sale" of about 6%.

At 31 December 2016, the impact of applying the Credit Value Adjustment to derivatives with positive mark-to-market amounts is 3 thousand euro (relating to trading derivatives); with regard to those with a negative MTM, application of the Debit Value Adjustment has no impact.

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	**2,466**		**23,851**			
2. Increases	**2,300**		**13,173**			
2.1. Purchases	55		9,416			
2.2. Profits posted to:						
2.2.1. Income statement	2,245					
of which: capital gains	2,245					
2.2.2. Shareholders' equity			3,750			
2.3. Transfers from other levels						
2.4. Other increases			7			
3. Decreases	**2,120**		**4,979**			
3.1. Sales			1,251			
3.2. Redemptions	55					
3.3. Losses posted to:						
3.3.1. Income statement	2,065		2,070			
of which: capital losses	2,065		2,070			
3.3.2. Shareholders' equity			1,609			
3.4. Transfers to other levels						
3.5. Other decreases			49			
4. Closing balance	**2,646**		**32,045**			

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	**2,016**		
2. Increases	**2,156**		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	2,156		
- of which: capital losses	*2,156*		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	**2,016**		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,016		
- of which: capital gains	*2,016*		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**2,156**		

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity								
2. Due from banks	112,838		10,316	102,696	292,992		10,138	283,019
3. Loans to customers	9,720,108		5,479,533	4,503,206	9,386,311		4,755,853	4,867,751
4. Investment property	1,154			1,036	1,171			1,047
5. Non-current assets and disposal groups held for sale					4,967			
Total	**9,834,100**		**5,489,849**	**4,606,938**	**9,685,441**		**4,765,991**	**5,151,817**
1. Due to banks	962,245			962,245	753,115			753,115
2. Due to customers	8,729,591			8,729,591	8,244,110			8,244,110
3. Debt securities in issue	1,393,884		1,361,453	25,825	1,918,104		1,742,261	167,748
4. Liabilities associated with assets held for sale					754			
Total	**11,085,720**		**1,361,453**	**9,717,661**	**10,916,083**		**1,742,261**	**9,164,973**

Key:
BV= Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 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.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2016	31.12.2015
a) Cash	50,472	62,306
b) Demand deposits with central banks		
Total	**50,472**	**62,306**

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3,224	1,446		3	2,865	
1.1 Structured securities	*1,868*				*1*	
1.2 Other debt securities	*1,356*	*1,446*		*3*	*2,864*	
2. Equity instruments	2,292		400			400
3 Mutual funds						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**5,516**	**1,446**	**400**	**3**	**2,865**	**400**
B. Derivatives:						
1. Financial derivatives:	19	10,426	2,246	11	10,693	2,066
1.1 for trading	*19*	*9,891*	*2,246*	*11*	*9,698*	*2,066*
1.2 connected with the fair value option		*535*			*995*	
1.3 other						
2. Credit derivatives						
2.1 for trading						
2.2 connected with the fair value option						
2.3 other						
Total B	**19**	**10,426**	**2,246**	**11**	**10,693**	**2,066**
Total (A+B)	**5,535**	**11,872**	**2,646**	**14**	**13,558**	**2,466**

Caption 20 "Financial assets held for trading" comprises:

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

The derivatives for which the fair value option has been exercised consist of derivatives operationally linked to bond issues for which the Bank exercised the fair value option.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

All financial instruments included in financial assets held for trading are measured at fair value.

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

Captions/Amounts	**31.12.2016**	**31.12.2015**
A. Cash assets		
1. Debt securities	**4,670**	**2,868**
a) Government and central banks	*2,797*	*1,402*
b) Other public entities		
c) Banks	*5*	*1,465*
d) Other issuers	*1,868*	*1*
2. Equity instruments	**2,692**	**400**
a) Banks	513	
b) Other issuers:	2,179	400
- insurance companies	*141*	
- financial companies	*492*	
- non-financial companies	*1,546*	*400*
- other		
3. Mutual funds		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**7,362**	**3,268**
B. Derivatives		
a) Banks	11,913	11,072
- Fair value	*11,913*	*11,072*
b) Customers	778	1,698
- Fair value	*778*	*1,698*
Total B	**12,691**	**12,770**
Total (A+B)	**20,053**	**16,038**

Section 4 - Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,631,315	118,598		1,627,130	162,184	
1.1. Structured securities		*7,701*			*7,651*	
1.2. Other debt securities	*1,631,315*	*110,897*		*1,627,130*	*154,533*	
2. Equity instruments	25		19,963	203		13,677
2.1 Valued at fair value	*25*		*15,746*	*203*		
2.2 Valued at cost			*4,217*			*13,677*
3. Mutual funds	66,181		12,082	67,763		10,174
4. Loans						
Total	**1,697,521**	**118,598**	**32,045**	**1,695,096**	**162,184**	**23,851**

Caption "Financial assets available for sale" comprises:

- the bond portfolio and Mutual funds 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 included in the scope of consolidation.

Debt securities include securities associated with repurchase agreements.

UCITS units: breakdown by main category

The following table provides a breakdown of "Mutual funds" by type of fund.

	31.12.2016	31.12.2015
Equity funds	11,715	3,315
Bond funds	16,854	30,948
Flexible funds	37,613	33,501
Hedge funds	10	
Closed-ended real estate funds	9,441	10,173
Closed-ended real estate funds	2,630	
Total	**78,263**	**77,937**

The table provides a breakdown of the main categories of investments made in mutual funds included in financial assets available for sale.

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

Captions/Amounts	31.12.2016	31.12.2015
1. Debt securities	**1,749,913**	**1,789,314**
a) Government and central banks	1,638,238	1,710,974
b) Other public entities		
c) Banks	96,197	72,872
d) Other issuers	15,478	5,468
2. Equity instruments	**19,988**	**13,880**
a) Banks	1,674	203
b) Other issuers:	18,314	13,677
- insurance companies		
- financial companies	*3,530*	*3,094*
- non-financial companies	*14,154*	*10,403*
- other	*630*	*180*
3. Mutual funds	**78,263**	**77,937**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,848,164**	**1,881,131**

4.3 Financial assets available for sale with specific (or "micro") hedges

Captions/Amounts	31.12.2016	31.12.2015
1. Financial assets with specific fair value hedges		**121,479**
a) interest rate risk		121,479
b) exchange rate risk		
c) credit risk		
d) other risks		
2. Financial assets with specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total		**121,479**

Fair value specific hedges refer to the hedging of the interest rate risk on government bonds with a coupon index-linked to inflation.

Impairment tests of financial assets available for sale

As required by the accounting standards IAS 39, at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable.

The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of "Part A - Accounting policies" of these explanatory notes.

Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31.12.2016				31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**78,591**			78,591	**97,807**			97,807
1. Restricted deposits								
2. Reserve requirement	78,591				97,807			
3. Repurchase agreements								
4. Other								
B. Due from banks	**34,247**				**195,185**			
1. Loans	24,105			24,105	185,212			185,212
1.1 Current accounts and demand deposits	12,212				115,663			
1.2. Restricted deposits	7,979				68,409			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	7,979				68,409			
1.3 Other loans:	3,914				1,140			
- Repurchase agreements								
- Finance leases								
- Other	3,914				1,140			
2. Debt securities	10,142		10,316		9,973		10,138	
2.1. Structured securities	3,799				3,730			
2.2. Other debt securities	6,343				6,243			
Total	**112,838**		**10,316**	**102,696**	**292,992**		**10,138**	**283,019**

Key:

FV = fair value

BV = book value

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.

The Group's commitment to maintain the reserve requirement amounts to Euro 87.5 million at the end of the year (Euro 85.3 million at the prior year end).

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

6.2 Due from banks with specific hedges

At the reference dates, there are no amounts due to banks with specific hedges.

6.3 Finance leases

At the reference date, there are no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2016						31.12.2015					
	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	**8,808,817**		**910,206**		**5,478,408**	**4,503,206**	**8,480,676**		**904,556**		**4,754,732**	**4,867,751**
1. Current accounts	1,524,805		198,325				1,628,580		189,445			
2. Repurchase agreements	211,681											
3. Mortgage loans	5,047,390		632,028				4,878,004		493,963			
4. Credit cards, personal loans and assignments of one-fifth of salary	589,740		5,173				554,938		6,082			
5. Finance leases	284,550		17,001				353,760		24,318			
6. Factoring	35,236		290				27,051		355			
7. Other loans	1,115,415		57,389				1,038,343		190,393			
Debt securities	**1,085**				**1,125**		**1,079**				**1,121**	
8. Structured securities	1,085						1,079					
9. Other debt securities												
Total	**8,809,902**		**910,206**		**5,479,533**	**4,503,206**	**8,481,755**		**904,556**		**4,755,853**	**4,867,751**

Gross loans totalled Euro 10,550,641 thousand (Euro 10,262,262 thousand last year), including the loans acquired by means of a business combination with Banca Popolare di Spoleto S.p.A., recorded in the financial statements in accordance with IFRS 3. Total adjustments amounted to Euro 830,533 thousand (against Euro 875,951 thousand at the end of last year).

"Mortgage loans" include loans relating to the "Spoleto Mortgages 2011" securitisation of the subsidiary Banca Popolare di Spoleto, not eliminated from its assets as there was no basis for derecognition.

“Mortgage loans” also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,696,942 thousand.

As regards non-performing loans, in addition to the disclosures made in the Report on operations, reference should be made to "Section E" of these explanatory notes

This caption includes the interest accrued at 31 December 2016 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Considering current conditions in the loan market, the fair value of non-performing loans might not represent their final exit price, as there is still a certain amount of chance associated with the elements used for the determination of price by potential third-party purchasers.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2016			31.12.2015		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities	**1,085**			**1,079**		
a) Governments						
b) Other public entities						
c) Other issuers	1,085			1,079		
- non-financial companies						
- financial companies	*1,085*			*1,079*		
- insurance companies						
- other						
2. Loans to:	**8,808,817**		**910,206**	**8,480,676**		**904,556**
a) Governments	23,204			24,171		
b) Other public entities	3,184		7	3,816		97
c) Other parties	8,782,429		910,199	8,452,689		904,459
- non-financial companies	*5,570,321*		*677,103*	*5,568,401*		*683,062*
- financial companies	*345,148*		*982*	*131,305*		*868*
- insurance companies	*1,436*		*200*	*2,823*		
- other	*2,865,524*		*231,914*	*2,750,160*		*220,529*
Total	**8,809,902**		**910,206**	**8,481,755**		**904,556**

7.3 Loans to customers: with specific hedge

	31.12.2016	**31.12.2015**
1. Loans with specific fair value hedges	7,523	15,130
a) Interest rate risk	7,523	15,130
b) Exchange rate risk		
c) Credit risk		
d) Other risks		
2. Loans with specific cash flow hedges		
a) Interest rate risk		
b) Exchange rate risk		
c) Expected transactions		
d) Other hedged assets		
Total	**7,523**	**15,130**

This caption represents the book value of loans with specific fair value hedges for interest rate risk.

7.4 Finance leases

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

	31.12.2016				31.12.2015			
Type of transaction	**Gross investment**	**Deferred profit**	**Net investment**	**Unsecured residual value (purchase option)**	**Gross investment**	**Deferred profit**	**Net investment**	**Unsecured residual value (purchase option)**
Finance lease	355,877	(59,781)	296,096	54,505	450,642	(77,400)	373,242	59,307
- of which leaseback agreements	27,982	(5,184)	22,798	5,533	28,717	(5,452)	23,265	4,667
Total	**355,877**	**(59,781)**	**296,096**	**54,505**	**450,642**	**(77,400)**	**373,242**	**59,307**

	31.12.2016			31.12.2015		
Falling due	**Gross investment**	**Deferred profit**	**Net investment**	**Gross investment**	**Deferred profit**	**Net investment**
- Within one year	10,151	(194)	9,957	8,992	(164)	8,828
- Between one and five years	92,926	(6,108)	86,818	129,335	(8,670)	120,665
- Beyond five years	252,800	(53,480)	199,320	312,315	(68,566)	243,749
Total	**355,877**	**(59,782)**	**296,095**	**450,642**	**(77,400)**	**373,242**

The net investment corresponds to the outstanding capital element of lease obligations at the year end.

Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	31.12.2016				31.12.2015			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives		**2,591**		**31,298**		**4,601**		**133,376**
1) Fair value		2,591		31,298		4,149		83,376
2) Cash flows						452		50,000
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**2,591**		**31,298**		**4,601**		**133,376**

Key:

NV = notional value

L1 = Level 1
L2 = Level 2
L3 = Level 3

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

8.2 Hedging derivatives: breakdown by hedge portfolios and by type of hedge (book value)

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables	10								
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**10**								
1. Financial liabilities	2,581								
2. Portfolio									
Total liabilities	**2,581**								
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".

The specific fair value hedges on financial liabilities relate exclusively to hedges on bonds issued by Banco Desio and the subsidiary Banca Popolare di Spoleto.

In the event that prospective and retrospective assessments performed during the year in compliance with the requirements of IAS 39 did not confirm the effectiveness of the hedging relationship, they were interrupted and the related derivatives classified as trading instruments.

Section 9 - Adjustment to financial assets with generic (or "macro") hedges - caption 90

9.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Components of the group	31.12.2016	31.12.2015
1. Positive adjustments	**1,543**	**1,408**
1.1 of specific portfolios:	1,543	1,408
a) loans	*1,543*	*1,408*
b) financial assets available for sale		
1.2 total		
2. Negative adjustments		
2.1 of specific portfolios:		
a) loans		
b) financial assets available for sale		
2.2 total		
Total	**1,543**	**1,408**

The adjustment to financial assets with generic hedges ("macro-hedging") refers to changes in fair value due to fluctuations in interest rates on portfolios of similar assets from the point of view of the financial profile and the underlying risks identified by the Group for the purpose of designating the different fair value macro-hedging relationships for interest rate risk.

At 31 December 2016, there are portfolios of fixed-rate mortgages and loans to customers subject to macro-hedging.

9.2 Assets with generic hedges for interest rate risk

	31.12.2016	31.12.2015
1. Loans and receivables	7,016	7,819
2. Financial assets available for sale		
3. Portfolio		
Total	**7,016**	**7,819**

At 31 December 2016, the Group has generic hedges in place to cover the interest-rate risk on the portfolios of fixed-rate loans to customers that mature between 2021 and 2037.

Section 10 - Equity investments - caption 100

10.1 Equity investments: details of holdings

At the reporting date, the Banco Desio Group does not hold equity investments in associates or companies under joint control.

10.5 Equity investments: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**13,261**	**14,806**
B. Increases		**1,699**
B.1 Purchases		
B.2 Write-backs		
B.3 Revaluations		1,699
B.4 Other changes		
C. Decreases	**13,261**	**3,244**
C.1 Sales	13,261	
C.2 Write-downs		
C.3 Other changes		3,244
D. Closing balance	**-**	**13,261**
E. Total revaluations	**-**	**1,054**
F. Total write-downs	**-**	**-**

Caption "B.3 Revaluations", related to last year financial statements, refers to the net results of the two former associates (Chiara Assicurazioni SpA and Istifid SpA) and the consequent increase in the value of the portion of equity held in them.

Caption "C.1 Sales" shows the sale of 4,054,001 of the shares of Chiara Assicurazioni S.p.A. (32.66%) and Helvetia.

The caption "C.3 Other changes" in the previous year included the book value of Istifid S.p.A. reclassified to caption 150 "Non-current assets and disposal groups held for sale".

10.6 Significant assessments and assumptions in determining the existence of joint control or significant influence

In accordance with IAS 28, significant influence is the power to participate in determining financial and operating policies of the investee without having control or joint control. IAS 28 also introduces a presumption of significant influence whenever the investor owns - directly or indirectly - a percentage of voting rights equal to or greater than 20%. If there is an interest equal to or higher than 20%, the participant will be responsible for demonstrating the absence of any significant influence. Conversely, if the interest is lower than 20%, the participant will be responsible for demonstrating the existence of significant influence.

The existence of significant influence is usually evidenced in one or more of the following circumstances:

a) representation on the board of directors or equivalent governing body of the investee;

b) participation in the decision-making process, including participation in decisions about dividends or other distribution of profits;

c) the presence of significant transactions between the entity and the investee;

d) an interchange of managerial personnel; or

e) the provision of essential technical information.

No examples of significant influence or joint control were found by the new assessments made following the disposal of the investments in Chiara Assicurazioni Spa and Istifid Spa during 2016.

10.7 Commitments relating to investments in companies under joint control

There are no commitments relating to investments in companies under joint control.

10.8 Commitments relating to investments in companies subject to significant influence

There is a commitment of Euro 4.5 million for the purchase of a minority interest; this commitment was updated at the reference date, with reference to the latest financial information available, resulting in an adjustment of Euro 1,683 thousand.

10.9 Significant restrictions

At the reference date, the Banco Desio Group has no investment in associates or subsidiaries under joint control.

10.10 Other information

There is no other information to be reported.

Section 12 - Property, plant and equipment - caption 120

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

Assets/Amounts	31.12.2016	31.12.2015
1 Own assets	**180,047**	**183,812**
a) land	52,564	52,564
b) property	107,506	109,698
c) furniture	5,607	7,446
d) electronic systems	4,930	7,881
e) other	9,440	6,223
2 Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**180,047**	**183,812**

As at the year end, there were no tangible fixed assets being purchased under finance leases.

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all property, plant and equipment, including other tangible fixed assets, are measured at cost, except for tangible assets acquired through business combinations and shown in the consolidated financial statements at fair value, pursuant to the IFRS 3.

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

12.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,154**			**1,036**	**1,171**			**1,047**
a) land	498			426	498			426
b) property	656			610	673			621
2. Assets purchased under finance leases								
a) land								
b) property								
Total	**1,154**			**1,036**	**1,171**			**1,047**

The book value reflects the capitalisation of construction and/or renovation costs, in addition to taxes, particularly on new properties acquired, factors that the market value do not fully reflect.

12.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the balance sheet date, the Banco Desio Group does not have any revalued property, plant and equipment for business purposes.

12.4 Investment property: breakdown of assets carried at fair value

At the reference date, the Banco Desio Group has no investment property measured at fair value.

12.5 Property, plant and equipment for business purposes: changes during the year

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**52,564**	**136,377**	**38,557**	**33,418**	**49,853**	**310,769**
A.1 Net total write-downs		26,679	32,013	27,591	40,674	126,957
A.2 Net opening balance	**52,564**	**109,698**	**6,544**	**5,827**	**9,179**	**183,812**
B. Increases		**539**	**493**	**2,412**	**2,349**	**5,793**
B.1 Purchases			493	1,022	2,284	3,799
B.2 Capitalised improvement costs		539				539
B.3 Write-backs						
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes				1,390	65	1,452
C. Decreases		**2,731**	**1,430**	**3,309**	**2,088**	**9,558**
C.1 Sales				1,388	74	1,462
C.2 Depreciation		2,731	1,430	1,921	2,014	8,096
C.3 Impairment write-downs booked to:						
- a) shareholders' equity						
- b) income statement						
C.4 Decreases in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
- a) investment property, plant and equipment						
- b) assets held for sale						
C.7 Other changes						
D. Net closing balance	**52,564**	**107,506**	**5,607**	**4,930**	**9,440**	**180,047**
D.1 Net total write-downs		29,411	33,443	28,122	42,623	133,599
D.2 Gross closing balance	**52,564**	**136,917**	**39,050**	**33,052**	**52,063**	**313,646**
E. Measurement at cost						

The sub-captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.

The caption "B.7 Other changes" relates to the reversal of accumulated depreciation pertaining to assets disposed of or transferred to another category.

From the sale of property, plant and equipment, as indicated by the sub-caption "C.1 Sales", realised gains of Euro 3 thousand have been recognised in the income statement under caption 190 "Other operating charges/income".

12.6 Investment property: changes during the year

	Total	
	Land	**Buildings**
A. Opening balance	**498**	**673**
B. Increases		
B.1 Purchases		
of which: business combinations		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes		
C. Decreases		**17**
C.1 Sales		
C.2 Depreciation		17
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		
D. Closing balance	**498**	**656**
E. Measurement at fair value		

12.7 Commitments to purchase property, plant and equipment

Commitments to purchase property, plant and equipment amount to about Euro 1.4 million at 31 December 2016. They related to the purchase of a property in Como by the Parent Company in order to strengthen its territorial presence in that location.

Section 13 - Intangible assets - caption 130

13.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2016		31.12.2015	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		15,322		15,322
A.1.1 Pertaining to the Group		15,322		15,322
A.1.2 Pertaining to minority interests				
A.2 Other intangible assets	2,521		2,885	
A.2.1 Carried at cost:	2,521		2,885	
a) Intangible assets generated internally				
b) Other assets	2,521		2,885	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	**2,521**	**15,322**	**2,885**	**15,322**

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 four years and for application software it is 4 or 5 years, based on the useful life specified within the asset category.

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, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2016.

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 CGU.

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted for the legal entities Banco di Desio e della Brianza Spa and Fides Spa, on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, 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 used is the same as the 2017-2021 Business Plan prepared by the management and approved by the Directors from the 2017 budget, with projections of future results extended to 2021 to include the changes in the economic and financial scenario compared with the previous year.

The maintenance of a five-year forecasting horizon is considered consistent with the current economic-financial macroeconomic situation, in order to reduce the distortions that would be attributable to the use of a shorter period. The latter would be heavily conditioned by a complex systemic situation because of the current uncertain outlook and the lasting effects of the economic and financial crisis on the money markets and interest rates. The longer period is also appropriate because it tends to normalise the impact of extraordinary events, thus making it possible to focus better on the true medium/long-term potential of the tested entity.

Cash flows

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.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

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 CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, 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.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	Budget 2017 and forecast to 2021 (*)	0.09%	8.38%	1.50%	Net results	CET 1 8.50% (**)
Banca Popolare di Spoleto Spa	DDM	Budget 2017 and forecast to 2021 (***)	0.92%	8.38%	1.50%	Net results	CET 1 8.50% (**)
Fides Spa	DDM	Budget 2017 and forecast to 2021 (****)	9.99%	9.88%	1.50%	Net results	CET 1 8.50% (**)

(*) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors on 22 December 2016, and the projection of results until 2021 by management.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)
(***) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors of BPS on 20 December 2016 and ratified by the Board of Directors of the Parent Bank on 22 December 2016, and the projection of results until 2021 by management.
(****) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors of the Parent Bank on 22 December 2016, in its role of management and coordination, and then by the Board of Directors of Fides on 17 January 2017, and the projection of results until 2021 by management.

As a result of the impairment testing performed, no write-down was needed of the aforementioned goodwill of the above CGU.

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 CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

CGU	% decrease in net future results (RN)	Increase in percentage points of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza Spa	29.97%	349
Banca Popolare di Spoleto Spa	18.62%	175
Fides Spa	43.29%	736

Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) in 2016 was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole, which, for a better understanding of the result, indicates the recoverable amount of consolidated shareholders' equity as an amount per share.

Impairment testing has thus been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

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 used is the same as the 2017-2021 Business Plan prepared by the management and approved by the Directors from the 2017 budget, with projections of future results extended to 2021 to include the changes in the economic and financial scenario compared with the previous year.

The maintenance of a five-year forecasting horizon is considered consistent with the current economic-financial macroeconomic situation, in order to reduce the distortions that would be attributable to the use of a shorter period. The latter would be heavily conditioned by a complex systemic situation because of the current uncertain outlook and the lasting effects of the economic and financial crisis on the money markets and interest rates. The longer period is also appropriate because it tends to normalise the impact of extraordinary events, thus making it possible to focus better on the true medium/long-term potential of the tested entity.

Cash flows

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.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

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 Consolidated Own Funds, 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.

	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	Budget 2017 and forecast to 2021 (*)	0.87%	8.38%	1.50%	Net results	CET 1 8.50% (**)

(*) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors on 22 December 2016, and the projection of results until 2021 by management.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

An amount arose from impairment testing that was higher than the average capitalisation in 2016 of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of consolidated shareholders' equity at the measurement date, there was no need to write down any of the Group's assets.

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 consolidated shareholders' equity match the carrying amount at the measurement date.

	% decrease in net future results (RN)	Increase in percentage points of discount rate used for future cash flows (FCFE)
Banco Desio Group	18.81%	182

13.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		LIM	UNLIM	LIM	UNLIM	
A. Gross opening balance	**35,963**			**5,045**		**38,874**
A.1 Net total write-downs	20,641			2,160		20,667
A.2 Net opening balance	**15,322**			**2,885**		**18,207**
B. Increases				**1,614**		**1,614**
B.1 Purchases				1,614		1,614
B.2 Increases in internally generated						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				**1,979**		**1,979**
C.1 Sales						
C.2 Write-downs				1,978		1,978
- amortisation				1,978		1,978
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes				1		1
D. Net closing balance	**15,322**			**2,521**		**17,843**
D.1 Total net write-downs	20,641			8,191		28,842
E. Gross closing balance	**35,963**			**10,712**		**46,685**
F. Measurement at cost						

Key
LIM: limited duration
UNLIM: unlimited duration

13.3 Other information

At year end there are no commitments to purchase intangible assets.

Section 14 -Tax assets and liabilities - Asset caption 140 and Liability caption 80

14.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2016	31.12.2015
A) With contra-entry to the income statement:				
Tax losses	1,330		1,330	1,009
Tax deductible goodwill	4,701	952	5,653	3,204
Write-down of loans to customers	143,844	18,433	162,277	170,980
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	1		1	9
Statutory depreciation of property, plant and equipment	148		148	81
Provision for guarantees and commitments and country risk	810		810	790
Provisions for personnel costs	8,780	1,579	10,359	6,629
Provision for lawsuits	4,004	47	4,051	4,332
Provision for claw-backs	1,218	247	1,465	1,663
Provision for sundry charges	466		466	558
Tax provision for termination indemnities	358		358	313
Other general expenses deductible in the following year	2	201	203	72
Other	1,576	395	1,971	2,118
Total A	**167,543**	**21,854**	**189,397**	**192,063**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	725		725	590
Write-down of securities classified as AFS	4,706	958	5,664	2,291
Other	1,020	196	1,216	217
Total B	**6,451**	**1,154**	**7,605**	**3,098**
Total (A+B)	**173,994**	**23,008**	**197,002**	**195,161**

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 164,834 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative. Despite the lack of obligation to pay, on 28 July 2016, Banco di Desio e della Brianza S.p.A., as the tax consolidating company, nevertheless exercised the valid option for all companies participating in the tax consolidation regime, in order to maintain the possibility of transforming such deferred tax assets.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, an analysis was made of deferred tax assets by type and timing of recovery, as well as of the future profitability of the Group and the related taxable income on the basis of the forecast updated after the approval of the Budget by the Board of Directors of Group companies. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2016	31.12.2015
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,692	871	7,563	7,567
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	475	96	571	571
Tax amortisation of deferred charges (software)	2	5	7	7
Tax provision as per art. 106, paragraph 3	20		20	20
Tax provision for termination indemnities				550
Other	9,778	1,613	11,391	14,083
Total A	**16,967**	**2,600**	**19,567**	**22,813**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	128	26	154	31
Revaluation of AFS securities	5,566	1,146	6,712	8,614
Revaluation of equity investments	43	173	216	30
Tax provision for termination indemnities				53
Total B	**5,737**	**1,345**	**7,082**	**8,728**
Total (A+B)	**22,704**	**3,945**	**26,649**	**31,541**

14.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2016	31.12.2015
1. Opening balance	**192,063**	**195,189**
2. Increases	**12,560**	**20,660**
2.1 Deferred tax assets recognised during the year	12,259	20,525
a) relating to prior years		251
b) due to changes in accounting policies		
c) write-backs		
d) other	12,259	20,274
2.2 New taxes or increases in tax rates		
2.3 Other increases	301	135
3. Decreases	**15,226**	**23,786**
3.1 Deferred tax assets cancelled in the year	15,175	5,622
a) reversals	15,175	5,622
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	51	18,164
a) Conversion to tax credits as per L. 214/2011		12,281
b) Other	51	5,883
4. Closing balance	**189,397**	**192,063**

Deferred tax assets mainly comprise:

- Euro 8,056 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 2,668 thousand di euro relating to the franking by Banca Popolare di Spoleto S.p.A., pursuant to art. 15, para. 10, of Decree 185/2008, of the goodwill of Euro 8,068 thousand recorded in the balance sheet on the contributions made to that company by Banco Desio of the lines of business comprising the former Banco Desio branches in Tuscany and Lazio;
- Euro 990 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

The sub-caption "2.3 Other increases" relates to the recognition of a deferred tax asset as a result of the recalculation, made for the purpose of the tax return for the year 2015.

Deferred tax assets cancelled in the year are essentially due to:

- for Euro 8,703 thousand to the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 6,046 thousand relating to the use of taxed provisions.

The caption "3.3 Other decreases" relates to the cancellation of deferred tax assets as a result of the recalculation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2015 related to provisions that were already taxed.

14.3.1 Change in deferred tax assets as per L. 214/2011 (as a contra-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**173,678**	**173,730**
2. Increases		**13,773**
3. Decreases	**8,844**	**13,825**
3.1 Reversals	8,844	1,544
3.2 Conversion to tax credits		12,281
a) arising from the loss for the year		12,281
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**164,834**	**173,678**

"3.1 Reversals" refers to:

- for Euro 8,703 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012 related to the Parent Company.

14.4 Change in deferred tax liabilities (as a contra-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**22,813**	**25,539**
2. Increases	**859**	**367**
2.1 Deferred tax liabilities recognised during the year	610	367
a) relating to prior years		
b) due to changes in accounting policies		
c) other	610	367
2.2 New taxes or increases in tax rates		
2.3 Other increases	249	
3. Decreases	**4,105**	**3,093**
3.1 Deferred tax liabilities cancelled during the year	4,103	3,093
a) reversals	4,103	3,093
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	2	
4. Closing balance	**19,567**	**22,813**

Deferred tax liabilities mainly relate to:

- Euro 545 thousand on the voluntary contribution to the Interbank Deposit Protection Fund;
- Euro 62 thousand on dividends for the year that have not yet been collected.

The caption "2.3 Other increases" relates to the recognition of a deferred tax liabilities as a result of the recalculation, made for the purpose of the tax return for the year 2015.

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 3,288 thousand to fair value differences recorded in the consolidated financial statements pursuant to IFRS 3, following the business combination (acquisition of Banca Popolare di Spoleto S.p.A. which took place in 2014);
- for Euro 591 thousand to the share of capital gains realised on financial assets in 2013, 2014 and 2015, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act);
- for Euro 96 thousand to the release recorded on recalculation of the Irap deduction from Ires in relation to the payroll costs incurred in prior years.

14.5 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**3,098**	**1,986**
2. Increases	**5,879**	**1,892**
2.1 Deferred tax assets recognised during the year	5,879	1,744
a) relating to prior years		
b) due to changes in accounting policies		
c) other	5,879	1,744
2.2 New taxes or increases in tax rates		
2.3 Other increases		148
3. Decreases	**1,372**	**780**
3.1 Deferred tax assets cancelled in the year	1,372	780
a) reversals	1,372	780
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**7,605**	**3,098**

Deferred tax assets recognised during the year are attributable to:

- for Euro 4,702 thousand to the measurement of securities classified as Financial assets available for sale;
- for Euro 912 thousand to the change in the reserve for cash-flow hedges;
- for Euro 135 thousand to the actuarial measurement of the Provision for termination indemnities.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as financial assets available for sale.

14.6 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**8,728**	**8,461**
2. Increases	**1,608**	**2,680**
2.1 Deferred tax liabilities recognised during the year	1,608	2,680
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,608	2,680
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**3,254**	**2,413**
3.1 Deferred tax liabilities cancelled during the year	3,254	2,413
a) reversals	3,254	2,413
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**7,082**	**8,728**

Deferred tax liabilities recognised during the year are attributable to the measurement of securities classified as financial assets available for sale.

Section 15 - Non-current assets and disposal groups held for sale and associated liabilities - Asset caption 150 and Liability caption 90

15.1 Non-current assets and disposal groups held for sale: breakdown by type

	31.12.2016	31.12.2015
A. Individual assets		
A.1 Financial assets		1,882
A.2 Equity investments		2,471
A.3 Property, plant and equipment		
A.4 Intangible assets		
A.5 Other non-current assets		614
Total A		**4,967**
of which carried at cost		4,967
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value through profit and loss		
B.3 Financial assets available for sale		
B.4 Financial assets held to maturity		
B.5 Due from banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Property, plant and equipment		
B.9 Intangible assets		
B.10 Other assets		
Total B		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		754
Total C		**754**
of which carried at cost		754
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
D. Liabilities associated with groups of assets held for sale		
D.1 Due to banks		
D.2 Due to customers		
D.3 Debt securities in issue		
D.4 Financial liabilities held for trading		
D.5 Financial liabilities designated at fair value through profit and loss		
D.6 Provisions		
D.7 Other liabilities		
Total D		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		

The table provides information about non-current assets and disposal groups held for sale and associated liabilities, reclassified under asset caption 150 and liability caption 90 in accordance with IFRS 5.

The prior-year balances relate to the assets and liabilities of Rovere Société de Gestion S.A. and the value of the equity investment in Istifid S.p.A.

The disposal group held for sale and related liabilities do not represent a major line of business for the Group, so the P&L figures have not been reclassified as "Profit (loss) on non-current assets held for sale".

Section 16 - Other assets - caption 160

16.1 Other assets: breakdown

	31.12.2016	31.12.2015
Tax credits - capital	8,487	10,762
Amounts recoverable from the tax authorities for advances paid	44,663	48,836
Withholding tax credits	5	25
Cheques negotiated to be cleared	20,023	16,271
Guarantee deposits		2
Invoices issued to be collected	895	907
Debtors for securities and coupons to be collected by third parties	19	
Items being processed and in transit with branches	39,963	41,881
Currency spreads on portfolio transactions	257	188
Investments of the supplementary fund for termination indemnities	344	362
Leasehold improvement expenditure	15,123	16,814
Accrued income and prepaid expenses	971	1,044
Other items	47,000	20,567
Total	**177,680**	**157,659**

The balance of this caption at 31 December 2016 mainly relates to the Group banking sector.

The “Tax credits - capital” caption mainly relates to the tax credits recorded by the Parent Company following the application made in 2012 for reimbursements linked to the deductibility for Ires purposes of the Irap paid on payroll and similar expenses.

"Amounts recoverable from the tax authorities for advances paid" relate to payments of tax advances that exceed the tax liability as per the applicable tax return; in detail, they refer to:

- a receivable for withholding tax on interest on deposits and current accounts of Euro 5,254 thousand;
- a receivable for virtual stamp duty of Euro 30,865 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 8,544 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The “Items being processed and in transit with branches” principally include cheques being processed, Euro 16,002 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 5,164 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 8,781 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new 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 main sub-captions included in the caption “Other items” are:

- Euro 11,806 thousand due from the liquidator of CPC S.A. in liquidation and Euro 579 thousand due from the liquidator of Rovere in liquidation; These receivables are of a specific nature and are recoverable for the excess over the amount allocated to the provision for risks and charges in respect of the charges estimated for cancellation of the company (Euro 950 thousand for CPC S.A. in liquidation and Euro 29 thousand for Rovere in liquidation);
- Euro 4,533 thousand recognised following the authorisation given to distribute the profit reserves of Cedacri S.p.A.;
- commissions and taxes awaiting collection for Euro 14,877 thousand;
- invoices to be issued for Euro 4,950 thousand;
- Euro 2,823 thousand due following currency transactions.

LIABILITIES

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Components of the group	31.12.2016	31.12.2015
1. Due to central banks	**800,000**	**551,009**
2 Due to banks	**162,245**	**202,106**
2.1 Current accounts and demand deposits	36,275	32,657
2.2 Restricted deposits	372	7,997
2.3 Loans	125,454	161,387
2.3.1 Repurchase agreements		
2.3.2 other	125,454	161,387
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	144	65
Total	**962,245**	**753,115**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**962,245**	**753,115**
Total fair value	**962,245**	**753,115**

The "Due to central banks" caption reflects the funding facility assigned to the Parent Company by the ECB as part of the "TLTRO II" operation. To assist this loan, the Parent Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

1.2 Details of caption 10 "Due to banks": subordinated loans

As at the reporting date, the Group did not have any subordinated loans due to banks.

1.3 Details of caption 10 "Due to banks": structured loans

At the reference date, the Group did not have amounts due to banks with specific hedge.

1.4 Due to banks with specific hedge

At the reference date, the Group did not have amounts due to banks with specific hedge.

1.5 Finance lease payables

At the reference date, the Group did not have finance lease contracts with banks.

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Components of the group	31.12.2016	31.12.2015
1 Current accounts and demand deposits	7,288,663	6,767,936
2. Restricted deposits	1,383,441	1,265,977
3. Loans	23,204	176,276
3.1 Repurchase agreements		152,105
3.2 Other	23,204	24,171
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	34,283	33,921
Total	**8,729,591**	**8,244,110**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**8,729,591**	**8,244,110**
Fair value	**8,729,591**	**8,244,110**

In the comparative period, the caption "3.1 repurchase agreements" included transactions with institutional counterparties of Euro 152,105 thousand.

The "3.2 Loans: Other" caption represents loans received from Cassa Depositi e Prestiti that were used to grant reconstruction loans to customers following the 2009 earthquake in Abruzzo.

The main components of "5. Other payables" relate to: cashier's checks for Euro 30,673 thousand and checks for Euro 528 thousand (last year cashier's checks for Euro 28,774 thousand and checks for Euro 548 thousand respectively).

2.2 Details of caption 20 "Due to customers": subordinated loans

At the reference date, the Group did not have subordinated loans with customers.

2.3 Details of caption 20 "Due to customers": structured loans

At the reference date, the Group did not have structured loans with customers.

2.4 Due to customers with specific hedge

At the reference date, the Group did not have amounts due to customers with specific hedge.

2.5 Finance lease payables

At the reference date, the Group did not have amounts due to customers for finance lease transactions.

Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,368,059		1,361,453		1,761,760		1,742,261	11,404
1.1 structured	*15,161*		*15,297*		*14,771*		*14,771*	
1.2 other	*1,352,898*		*1,346,156*		*1,746,989*		*1,727,490*	*11,404*
2. Other securities	25,825			25,825	156,344			156,344
2.1 Structured								
2.2 other	*25,825*			*25,825*	*156,344*			*156,344*
Total	**1,393,884**		**1,361,453**	**25,825**	**1,918,104**		**1,742,261**	**167,748**

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.

During the year, new debt securities were issued of a nominal value (N.V.) of Euro 65,822 thousand, while debt securities redeemed on maturity amounted to Euro 458,905 thousand (N.V.). Again, during the year, repurchases were made of securities for Euro 92,286 thousand (N.V.) and which were subsequently relocated for Euro 105,173 thousand (N.V.).

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 88,636 thousand were issued with a short term maturity and Euro 82,833 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 506 thousand that have reached maturity and which are due to be redeemed.

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

3.2 Details of caption 30 "Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2016	31.12.2015
Issued by the Parent Company						
ISIN code IT0004780182	29.12.2011	29.12.2016	EUR	FR		12,910
ISIN code IT0004815855	15.06.2012	15.06.2017	EUR	FR	13,014	12,895
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	13,022	12,942
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	50,049	50,397
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,919	49,986
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,454	79,894
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	49,873	50,199
Issued by Subsidiaries						
ISIN code IT0004331598	15.04.2008	15.04.2018	EUR	FR	7,964	8,119
ISIN code IT0004344278	18.04.2008	18.04.2018	EUR	FR	10,544	10,646
Total					**273,839**	**287,990**

3.3 Details of caption 30 "Debt securities in issue": securities with specific hedge

	31.12.2016	31.12.2015
1. Securities with specific fair value hedge:	24,211	74,016
a) interest rate risk	24,211	74,016
b) Exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:	129,327	130,093
a) interest rate risk	129,327	130,093
b) Exchange rate risk		
c) other		

Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Components of the group	31.12.2016					31.12.2015				
	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			4,074	2,156				3,132	2,016	
1.1 for trading			4,074	2,156				3,132	2,016	
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			**4,074**	**2,156**				**3,132**	**2,016**	
Total A+B			**4,074**	**2,156**				**3,132**	**2,016**	

Key:
FV = fair value
FV* = fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Caption 40 "Financial liabilities held for trading" comprises the negative value of derivatives held for trading.

4.2 Details of caption 40 "Financial liabilities held for trading": subordinated liabilities

At the reference date, the Group did not have subordinated financial liabilities held for trading.

4.3 Details of caption 40 "Financial liabilities held for trading": structured loans

At the reference date, the Group did not have subordinated loans included in financial liabilities held for trading.

4.4 Trading cash financial liabilities (excluding short positions): changes during the year

At the reference date, the Group did not have cash financial liabilities.

Section 5 - 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	31.12.2016					31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**15,450**		**15,908**		**16,151**	**22,050**		**22,828**		**23,117**
3.1 Structured	15,450		15,908			22,050		22,828		
3.2 Other										
Total	**15,450**		**15,908**		**16,151**	**22,050**		**22,828**		**23,117**

Key:
FV = fair value

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

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The table shows 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 derivatives (fair value option).

5.2 Details of caption 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at the reporting date, the Group had not issued any subordinated bonds classifiable as financial liabilities designated at fair value through profit and loss.

Section 6 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31.12.2016				31.12.2015			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial		**6,637**		**140,589**		**24,758**		**196,982**
1) Fair value		3,859		10,589		24,328		116,982
2) Cash flows		2,778		130,000		430		80,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**6,637**		**140,589**		**24,758**		**196,982**

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables	3,859								
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**3,859**								
1. Financial liabilities							2,778		
2. Portfolio									
Total liabilities							**2,778**		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".

The cash flow hedges of financial liabilities are also to hedge bonds issued by Banco Desio.

Section 8 - Tax liabilities - caption 80

The breakdown and changes during the year of tax liabilities are disclosed in Section 14, Assets, together with information on deferred tax assets.

Section 9 - Liabilities associated with assets held for sale - caption 90

The composition of liabilities associated with assets held for sale is detailed in Section 15 of Assets.

Section 10 - Other liabilities - caption 100

10.1 Other liabilities: breakdown

	31.12.2016	31.12.2015
Due to tax authorities	690	2,226
Amounts payable to tax authorities on behalf of third parties	24,554	26,327
Social security contributions to be paid	6,785	6,684
Dividends due to shareholders	24	24
Suppliers	13,564	13,358
Amounts available to customers	23,343	18,528
Interest and dues to be credited	51	86
Payments against bill instructions	6,645	695
Early payments on loans not yet due	60	1,441
Items being processed and in transit with branches	81,940	68,106
Currency differences on portfolio transactions	18,119	80,439
Due to personnel	18,101	12,211
Sundry creditors	18,105	12,260
Provisions for guarantees given and commitments	5,947	4,378
Accrued expenses and deferred income	2,126	2,442
Total	**220,054**	**249,205**

The components pertaining to the banking business included in the above caption amount to Euro 217 million.

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the Group for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main component thereof relates to bank transfers being processed of Euro 68,427 thousand (Euro 51,313 thousand in the previous 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 the payable relating to early retirement incentives of Euro 14,983 thousand (Euro 8,862 thousand last year) and the year end balance of the amount due for holiday pay of Euro 2,629 thousand (Euro 2,125 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: The additional contribution to the Single Resolution Mechanism (SRM), Euro 7,580 thousand; sundry creditors in relation to currency transactions, Euro 1,336 thousand (Euro 1,930 thousand last year), and amounts due to creditors following the collection of notes, Euro 762 thousand (Euro 1,319 thousand).

Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**29,712**	**34,985**
B. Increases	**1,384**	**912**
B.1 Provision for the year	699	902
B.2 Other changes	685	10
C. Decreases	**892**	**6,185**
C.1 Payments made	892	4,190
C.2 Other changes		1,995
D. Closing balance	**30,204**	**29,712**

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is thus subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS.

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

11.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on statistics provided by the Group, an annual frequency of 2.50% was used for all Group companies except Banca Popolare di Spoleto, for which an annual frequency of 4.00% was used;
- for the probability of advances, an annual amount of 4.00% was assumed for all Group companies except Banca Popolare di Spoleto, for which an annual frequency of 1.66% was considered, for consistency with the approach taken by the previous actuary;

Economic and financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate 1.35%
- annual inflation rate 1.50%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.63%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 10+ index at the valuation date has been taken as reference for the valuation of this parameter.

The rate of inflation has been estimated as 1.50% with reference to the Government Planning Document (DEF 2016) dated 9 April 2016.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/-0.25%)	29,671	30,742
Annual inflation rate (+/- 0.25%)	30,524	29,878
Annual turn over rate (+/- 2.00%)	30,011	30,431

Section 12 - Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2016	31.12.2015
1. Pensions and similar commitments		
2. Other provisions for risks and charges	55,282	46,725
2.1 Legal disputes	*19,458*	*22,438*
2.2 Personnel expenses	*32,221*	*20,342*
2.3 Other	*3,603*	*3,945*
Total	**55,282**	**46,725**

The caption "legal disputes" include provisions made in the year for expected losses of Euro 15,026 thousand, arising from legal disputes and of Euro 4,432 thousand from bankruptcy clawback actions. In application of IFRS 3, the provision for bankruptcy clawback actions includes Euro 510 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS.

"Personnel expenses" mainly include estimated liabilities for: The Solidarity Fund, Euro 17,954 thousand; the bonus system, Euro 7,141 thousand, and the long-service and additional holiday awards, Euro 3,342 thousand.

The caption "Other" includes provisions for charges pertaining to other operating risks, including:

- provisions inherent to tax dispute for 123 thousand euro;
- provisions relating to tax dispute for Euro 556 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS, which took place in 2014;
- provisions totalling Euro 979 thousand for the estimated costs of winding-up CPC S.A. in liquidation and Rovere in liquidation;
- provisions totalling Euro 358 thousand for the contractual indemnities due to financial advisors.

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

12.2 Provisions for risks and charges: changes in the year

Items/Components	Pensions and similar commitments	Other provisions	Total
A. Opening balance		**46,725**	**46,725**
B. Increases		**29,834**	**29,834**
B.1 Provision for the year		28,977	28,977
B.2 Changes due to the passage of time		165	165
B.3 Changes due to changes in the discount rate			
B.4 Other changes		692	692
C. Decreases		**21,277**	**21,277**
C.1 Utilisations during the year		19,826	19,826
C.2 Changes due to changes in the discount rate			
C.3 Other changes		1,451	1,451
D. Closing balance		**55,282**	**55,282**

"B.1 Provisions of the year" include provisions for:

- to the bonus fund of 5,259 thousand euro,
- charges for legal disputes and bankruptcy of Euro 3,637 thousand,
- solidarity fund for 14,419 thousand euro.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel.

12.3 Pensions and similar commitments - defined benefits

There are nil balances at year end.

12.4 Provisions for risks and charges: other provisions

Details of "Other provisions for risks and charges" are provided in Section 12.1.

Section 15 - Group Shareholders' equity - captions 140, 160, 170, 180, 190, 200 and 220

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

	31.12.2016	31.12.2015
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 year.

15.2 Share capital - number of shares of the Parent Company: changes during the year

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	**117,000,000**	**13,202,000**
- fully paid	*117,000,000*	*13,202,000*
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**117,000,000**	**13,202,000**
B. Increases		
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	**117,000,000**	**13,202,000**
D.1 Treasury shares (+)		
D.2 Shares at the end of the year	117,000,000	13,202,000
- fully paid	*117,000,000*	*13,202,000*
- not fully paid		

15.3 Share capital: other information

There is no other information to be disclosed at the reference date.

15.4 Revenue reserves: other information

Captions	31.12.2016	31.12.2015
Legal reserve	88,249	84,504
Statutory reserves	511,728	489,417
Retained earnings (losses)	15,918	16,474
Other FTA reserves	99,785	99,785
Other reserves	31,284	36,480
Total	**746,964**	**726,660**

Section 16 - Minority interests - caption 210

16.1 Details of caption 210 "Minority interests"

Company name	31.12.2016	31.12.2015
Equity investments in consolidated companies with significant minority interests		
1. Banca Popolare Spoleto	50,381	51,283
2. Rovere	-	145
Other equity investments	-	178
Total	**50,381**	**51,606**

16.2 Equity instruments: breakdown and changes during the year

None.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.2016	31.12.2015
1) Financial guarantees:	27,802	16,386
a) Banks	6,325	2,117
b) Customers	21,477	14,269
2) Commercial guarantees:	265,240	269,924
a) Banks	8,078	7,775
b) Customers	257,162	262,149
3) Irrevocable commitments to disburse loans	138,657	155,166
a) Banks		3,925
i) certain to be called on		399
ii) not certain to be called on		3,526
b) Customers	138,657	151,241
i) certain to be called on	24,663	13,291
ii) not certain to be called on	113,994	137,950
4) Commitments underlying credit derivatives: sale of protection		
5) Assets pledged to guarantee third-party commitments		
6) Other commitments	573	1,447
Total	**432,272**	**442,923**

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2016	31.12.2015
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	240,880	889,806
4. Financial assets held to maturity		
5. Due from banks		
6. Loans to customers		
7. Property, plant and equipment		

5. Administration and trading on behalf of third parties

Type of services	31.12.2016
1. Execution of orders on behalf of customers	
a) purchases	
1. Settled	44,551
2. Unsettled	1,988
b) sales	
1. Settled	76,809
2. Unsettled	1,736
2. Asset management	
a) Individual	860,419
b) Collective	570,865
3. Custody and administration of securities	
a) Third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by companies included in the consolidation	
2. Other securities	
b) Third-party securities held on deposit (excluding portfolio management schemes): other	
1. securities issued by companies included in the consolidation	1,295,441
2. Other securities	7,305,614
c) third-party securities deposited with third parties	8,563,659
d) portfolio securities deposited with third parties	1,889,217
4. Other transactions	

6. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f=c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Deposits of cash received as collateral (e)		
1. Derivatives	12,993		12,993	1,513	10,500	980	789
2. Repurchase agreements							
3. Securities lending							
4. Other transactions							
Total 31.12.2016	**12,993**		**12,993**	**1,513**	**10,500**	**980**	
Total 31.12.2015	**15,280**		**15,280**	**2,351**	**12,140**		**789**

7. Financial liabilities subject to offsetting in the financial statements, or subject to framework agreements for offsetting or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f=c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	10,712		10,712	7,449	2,650	613	(165)
2. Repurchase agreements							
3. Securities lending							
4. Other transactions							
Total 31.12.2016	**10,712**		**10,712**	**7,449**	**2,650**	**613**	
Total 31.12.2015	**27,816**		**27,816**	**8,481**	**19,500**		**(165)**

Tables 6 and 7 show the positive fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 7 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they do provide mechanisms to mitigate the counterparty risk of default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

- the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments", together with the fair value of financial collateral represented by securities;
- the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".

These effects are calculated for counterparties with whom there is a framework netting agreement within the limits of the amount indicated in column (c) "Net amount of financial assets reported in the financial statements".

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2016	31.12.2015
1. Financial assets held for trading	84		626	710	807
2. Financial assets designated at fair value through					
3. Financial assets available for sale	13,460			13,460	16,589
4. Financial assets held to maturity					
5. Due from banks	255	305		560	1,078
6. Loans to customers	27	292,347		292,374	344,608
7. Hedging derivatives					548
8. Other assets			3	3	36
Total	**13,826**	**292,652**	**629**	**307,107**	**363,666**

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 18,280 thousand.

Conversely, the caption includes default interest collected in the year of Euro 1,893 thousand.

1.2 Interest and similar income: differentials on hedging transactions

Captions	31.12.2016	31.12.2015
A. Positive differentials on hedging transactions		3,251
B. Negative differentials on hedging transactions		(2,703)
C. Balance (A-B)		**548**

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Captions	31.12.2016	31.12.2015
Interest income on financial assets in foreign currency	1,323	1,595

1.3.2 Interest income from finance leases

Captions	31.12.2016	31.12.2015
Interest income from finance leases	7,867	10,320

Interest income recognised as income for the year on financial leases, and included in "Loans to customers - loans", refers for Euro 7,023 thousand to indexed contracts, of which Euro 381 thousand in lease back contracts.

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2016	31.12.2015
1. Due to central banks	(582)			(582)	(871)
2. Due to banks	(374)			(374)	(710)
3. Due to customers	(33,184)			(33,184)	(44,342)
4. Debt securities in issue		(35,912)		(35,912)	(55,408)
5. Financial liabilities held for trading					(49)
6. Financial liabilities designated at fair value through profit and loss		(648)		(648)	(695)
7. Other liabilities and provisions			(115)	(115)	(56)
8. Hedging derivatives			(100)	(100)	
Total	**(34,140)**	**(36,560)**	**(215)**	**(70,915)**	**(102,131)**

1.5 Interest and similar expense: differentials on hedging transactions

Captions	31.12.2016	31.12.2015
A. Positive differentials on hedging transactions	1,920	
B. Negative differentials on hedging transactions	(2,020)	
C. Balance (A-B)	**(100)**	

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Captions	31.12.2016	31.12.2015
Interest expense on foreign currency financial liabilities	(189)	(206)

1.6.2 Interest expense on finance leases

Banco Desio Group was not party to any such transactions.

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2016	31.12.2015
a) guarantees given	3,166	3,394
b) credit derivatives		
c) management, brokerage and consulting services:	46,570	47,892
1. trading in financial instruments		
2. trading in foreign exchange	1,646	1,838
3. asset management	6,119	5,437
3.1. individual	5,622	4,946
3.2. collective	497	491
4. custody and administration of securities	1,846	1,749
5. custodian bank		
6. placement of securities	18,752	17,273
7. order taking	5,662	8,142
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	12,545	13,453
9.1. asset management	310	367
9.1.1. individual	310	367
9.1.2. collective		
9.2 insurance products	8,466	10,007
9.3 other products	3,769	3,079
d) collection and payment services	28,563	29,596
e) servicing related to securitisation	58	83
f) services for factoring transactions	140	155
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	73,159	77,818
j) other services	19,613	23,456
Total	**171,269**	**182,394**

The commissions from "other services" include Euro 12,589 thousand(Euro 10,736 thousand last year) from the consumer credit activities of Fides S.p.A.; Euro 1,322 thousand from the recovery of expenses on collections mad for customers; Euro 1,398 thousand from internet banking fees, and Euro 1,104 thousand from the recovery of expenses on the collection of mortgage payments. The difference with respect to the prior year mainly reflects the absence of the management commissions earned by Rovere S.d.G. (Euro 5,421 thousand in 2015).

2.2 Commission expense: breakdown

Services/Amounts	31.12.2016	31.12.2015
a) guarantees received	(317)	(318)
b) credit derivatives		
c) management and brokerage services	(2,092)	(2,158)
1. trading in financial instruments	(110)	(116)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(1,245)	(1,306)
5. placement of financial instruments	(737)	(736)
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(3,356)	(4,431)
e) other services	(14,527)	(14,437)
Total	**(20,292)**	**(21,344)**

The commission expense arising on "other services" includes Euro 13,877 thousand recognised to financial intermediaries, comprising Euro 12,983 thousand (Euro 11,021 thousand last year) by Fides S.p.A. and Euro 894 thousand (Euro 1,001 thousand last year) by Banca Popolare di Spoleto.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2016		31.12.2015	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	32			
B. Financial assets available for sale	5,477		299	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	**5,509**		**299**	

The table shows dividend income from non-controlling interests classified as financial assets available for sale. The dividends in "caption B" include Euro 4,533 thousand recognised following the authorisation to distribute the profit reserves of Cedacri S.p.A., as well as the "ordinary" dividend of Euro 604 thousand.

Section 4 - 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	**54**	**938**	**(365)**	**(220)**	**407**
1.1 Debt securities		398	(209)	(47)	142
1.2 Equity instruments	54	195	(156)	(127)	(34)
1.3 Mutual funds		29		(46)	(17)
1.4 Loans					
1.5 Other		316			316
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange differences	**x**	**x**	**x**	**x**	**2,823**
4. Derivatives	**769**	**6,113**	**(951)**	**(5,777)**	**226**
4.1 Financial derivatives:	769	6,113	(951)	(5,777)	154
- On debt securities and interest rates	750	4,867	(951)	(4,930)	(264)
- On equities and equity indices	19	1,158		(796)	381
- On currency and gold	x	x	x	x	72
- Other		88		(51)	37
4.2 Credit derivatives					
Total	**823**	**7,051**	**(1,316)**	**(5,997)**	**3,456**

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.

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2016	31.12.2015
A. Income relating to:		
A.1 Fair value hedges	39	1,152
A.2 Hedged financial assets (fair value)	563	288
A.3 Hedged financial liabilities (fair value)	1,491	1,939
A.4 Cash flow hedges		3
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**2,093**	**3,382**
B. Charges relating to:		
B.1 Fair value hedges	(2,885)	(2,925)
B.2 Hedged financial assets (fair value)		(1,606)
B.3 Hedged financial liabilities (fair value)		(21)
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(2,885)**	**(4,552)**
C. Net hedging gains (losses) (A-B)	**(792)**	**(1,170)**

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, loans to customers and bonds issued by the Group, respectively – as well as from the related hedging derivatives.

Section 6 - Gains (losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2016			31.12.2015		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks					(689)	(689)
2. Loans to customers	7,298	(9,008)	(1,710)	388	(1,614)	(1,226)
3. Financial assets available for sale	25,298	(6,449)	18,849	32,516	(1,016)	31,500
3.1 Debt securities	23,086	(5,593)	17,493	29,364	(881)	28,483
3.2 Equity instruments	6		6	2,165		2,165
3.3 Mutual funds	2,206	(856)	1,350	987	(135)	852
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**32,596**	**(15,457)**	**17,139**	**32,904**	**(3,319)**	**29,585**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	321	(1,638)	(1,317)	158	(3,428)	(3,270)
Total liabilities	**321**	**(1,638)**	**(1,317)**	**158**	**(3,428)**	**(3,270)**

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. In particular, 3 portfolios were sold on 23 December 2016, generating a profit of Euro 1.5 million for Banco Desio and a loss of Euro 3.5 million for Banca Popolare di Spoleto.
- From the repurchase of loans from the Spoleto Mortgages securitisation by Banca Popolare di Spoleto (disposal profit of about Euro 1.1 million).

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 Mutual funds include the related tax credit.

As regards financial liabilities, caption "3. Debt securities in issue" includes the net gain (loss) on the repurchase of own bonds by Group companies.

Section 7 - 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)] 31.12.2016
1. **Financial assets**					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities	**243**	**129**		**(3)**	**369**
2.1 Debt securities	243	129		(3)	369
2.2 Due to banks					
2.3 Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives	**22**	**23**	**(474)**		**(429)**
Total	**265**	**152**	**(474)**	**(3)**	**(60)**

The net gains (losses) on financial assets and liabilities designated at fair value result from the difference between the fair value measurement of Group 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 these bonds.

Section 8 - Net impairment write-downs/write-backs - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2016	31.12.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers									
Non-performing loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(3,918)	(175,145)	(4,273)	25,647	57,954		9,597	(90,138)	(143,429)
- Debt securities									
C. Total	**(3,918)**	**(175,145)**	**(4,273)**	**25,647**	**57,954**		**9,597**	**(90,138)**	**(143,429)**

Key

A = Interest

B = Other write-backs

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

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

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

- Doubtful loans for Euro 106,178 thousand (formerly Euro 133,219 thousand);
- Unlikely to pay loans for Euro 67,156 thousand (formerly Euro 97,440 thousand);
- Past due loans for Euro 1,811 thousand (formerly Euro 6,995 thousand).

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

The specific interest write-backs (A) relate to the discount interest on the capital element which is deemed to be recoverable on doubtful and "unlikely to pay" loans.

"Other" specific write-backs relate to:

- doubtful loans amortised in previous years 3,252 thousand euro (formerly 1,974 thousand euro)
- collections of loans previously written down 24,995 thousand euro (formerly 25,171 thousand euro)
- write-backs 29,707 thousand euro (formerly 48,401 thousand)

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

Transactions/Income components	Write-downs (1)		Write-backs (2)		31.12.2016	31.12.2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities		(19)		4	(15)	
B. Equity instruments		(709)			(709)	(384)
C. Mutual funds		(1,541)			(1,541)	
D. Loans to banks						
E. Loans to customers						
F. Total		**(2,269)**		**4**	**(2,265)**	**(384)**

Key

A = Interest

B = Other write-backs

8.3 Net impairment write-downs/write-backs of financial assets held to maturity: breakdown

There were no net impairment adjustments to financial assets held to maturity for the reference dates.

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2016	31.12.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(296)	(2,058)		2,135		221	2	(1,009)
B. Credit derivatives									
C. Commitments to disburse									
D. Other transactions									
E. Total		**(296)**	**(2,058)**		**2,135**		**221**	**2**	**(1,009)**

Key

A = Interest

B = Other write-backs

Section 11 - Administrative costs - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2016	31.12.2015
1) Employees	(197,030)	(174,006)
a) Wages and salaries	(116,901)	(117,467)
b) Social security charges	(30,531)	(31,200)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(699)	(912)
f) Provision for post-retirement benefits and similar commitments:		(24)
- defined contribution		(24)
- defined benefit		
g) Payments to external supplementary pension funds:	(11,423)	(11,829)
- defined contribution	(11,423)	(11,829)
- defined benefit		
h) Equity-based payments		(182)
i) Other personnel benefits	(37,476)	(12,392)
2) Other active employees	(765)	(688)
3) Directors and auditors	(4,706)	(5,078)
4) Retired personnel		
Total	**(202,501)**	**(179,772)**

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

	31.12.2016	31.12.2015
1) Employees	**2,359**	**2,405**
a) managers	36	33
b) middle managers	1,091	1,101
c) other employees	1,232	1,271
2) Other personnel	**4**	**7**

11.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

11.4 Other personnel benefits

	31.12.2016	31.12.2015
Provision for sundry charges	(8,137)	(7,624)
Contributions to healthcare fund	(2,012)	(2,075)
Training and instruction costs	(276)	10
Rent expense of property used by employees	(385)	(366)
Redundancy incentives	(23,807)	498
Other	(2,859)	(2,835)
Total	**(37,476)**	**(12,392)**

The main components of the "Other" caption include company canteen costs of Euro 1,800 thousand (Euro 1,806 thousand) and costs relating to insurance premiums of Euro 469 thousand (Euro 303 thousand).

"Redundancy incentives" include a one-time charge of Euro 24.1 million incurred following the signature of an agreement between the Banco Desio Group and the trade unions on 29 November 2016 for access to the "Income support solidarity fund" (the "Fund") and the departure of employees of pensionable age.

11.5 Other administrative costs: breakdown

	31.12.2016	31.12.2015
Indirect taxes and duties:		
- Stamp duty	(26,105)	(27,262)
-Other	(5,900)	(5,430)
Other costs:		
- IT expenses	(16,163)	(14,657)
- Lease of property and other assets	(14,228)	(14,736)
- Maintenance of buildings, furniture and equipment	(5,831)	(6,566)
- Post office and telegraph	(2,740)	(2,801)
- Telephone and data transmission	(5,354)	(5,197)
- Electricity, heating, water	(4,483)	(4,348)
- Cleaning services	(1,419)	(1,393)
- Printers matter, stationery and consumables	(1,320)	(1,451)
- Transport costs	(1,161)	(1,163)
- Surveillance and security	(2,539)	(2,111)
- Advertising	(1,972)	(2,237)
- Information and surveys	(2,289)	(2,067)
- Insurance premiums	(1,220)	(1,678)
- Legal fees	(6,196)	(6,894)
- Professional consulting fees	(7,062)	(10,380)
- Various contributions and donations	(301)	(328)
- Sundry expenses	(25,054)	(22,433)
Total	**(131,337)**	**(133,132)**

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for 14,743 thousand euro (Euro 12,821 thousand in the previous year) of which:

- Euro 3,779 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 2,798 thousand in the previous period);

- Euro 7,579 thousand for the extraordinary contribution to the Single Resolution Mechanism as a result of the additional contribution request by the Bank of Italy to manage the resolution actions (Euro 8,397 thousand in the previous period);

- Euro 3,385 thousand for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (Euro 1,628 thousand in the previous year).

Fees payable to the Independent Auditors Deloitte & Touche S.p.A. and other companies pertaining to their network for various types of services rendered to the Group are summarised below:

Type of services	**Party which provided the service**	**Recipient**	**Fees (in thousands of euro)**
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	202
	Deloitte & Touche S.p.A.	Banca Popolare di Spoleto S.p.A.	148
	Deloitte & Touche S.p.A.	Fides S.p.A.	55
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	2
	Deloitte & Touche S.p.A.	Banca Popolare di Spoleto S.p.A.	2
Other services:			
- Review of translation of financial reports	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	55
- Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza S.p.A.	611
- Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banca Popolare di Spoleto S.p.A.	412
- IFRS 9 Methodological Support	Deloitte Consulting S.r.l.	Fides S.p.A.	16
Total			**1,503**

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 12 - Net provisions for risks and charges - caption 190

12.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2016	31.12.2015
Charges for legal disputes	(7,631)	4,252	(3,379)	(3,039)
Other	(512)	112	(400)	(1,895)
Total	**(8,143)**	**4,364**	**(3,779)**	**(4,934)**

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

Other provisions include provisions for other operating risks, including tax litigation.

The "other" caption is stated net of the release of the provision recorded in the prior year for the expected contribution to the solidarity fund covering the investors that had subscribed for the subordinated bonds of Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara, which was established by the 2016 Stability Law and then transferred to the Interbank Deposit Protection Fund (totalling Euro 780 thousand).

Section 13 - 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) 31.12.2016
A. Property, plant and equipment				
A.1 Owned	(8,114)			(8,114)
- for business purposes	(8,096)			(8,096)
- for investment purposes	(18)			(18)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	**(8,114)**			**(8,114)**

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the tables 12.5 and 12.6 of Section 12, Assets.

Section 14 - 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) 31.12.2016
A. Intangible assets				
A.1 Owned	(1,978)			(1,978)
- Generated internally				
- Other	*(1,978)*			*(1,978)*
A.2 Held under finance leases				
Total	**(1,978)**			**(1,978)**

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

Section 15 - Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	31.12.2016	31.12.2015
Amortisation of leasehold improvements	(2,427)	(3,102)
Losses on disposal of property, plant and equipment	(2)	(22)
Charges on non-banking services	(2,394)	(4,220)
Total	**(4,823)**	**(7,344)**

"Charges on non-banking services" include costs relating to insurance deductibles and fraudulent withdrawals for Euro 137 thousand and out of period expenses not attributable to a specific item for Euro 1,635 thousand.

15.2 Other operating income: breakdown

	31.12.2016	31.12.2015
Recovery of taxes from third parties	28,680	29,547
Recharge of costs of current accounts and deposits	11,825	11,997
Rental and leasing income	47	71
Other expense recoveries	12,061	14,533
Gains on disposal of property, plant and equipment	2	75
Other	1,151	825
Total	**53,766**	**57,048**

The “Recovery of taxes from third parties” caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 25,455 thousand, and the recovery of flat-rate taxes totalling Euro 3,112 thousand.

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 9,133 thousand (8,868 thousand euro at 31 December 2015) and other recoveries for various communications to customers of Euro 2,463 thousand (2,932 thousand euro in the previous year).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of Euro 5,462 thousand (Euro 8,202 thousand at 31 December 2015), the recovery of investigation costs of various loans for Euro 1,415 thousand (Euro 1,400 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 387 thousand (Euro 395 thousand), the recovery of sundry expenses relating to lease applications of Euro 517 thousand (Euro 721 thousand in 2015).

The caption "Other" includes, in particular, sundry out of period income of Euro 761 thousand.

Section 16 - Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	31.12.2016	31.12.2015
1) Companies subject to joint control		
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		
2) Associates (subject to significant influence)		
A. Income	7,616	10,764
1. Revaluations		1,699
2. Gains on disposal	2,212	
3. Write-backs		
4. Other income	5,404	9,065
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	**7,616**	**10,764**
Total	**7,616**	**10,764**

The "Gains on disposal" derive from the sale of the investments giving significant influence Istifid (loss of Euro 0.4 million) and Chiara Assicurazioni (profit of Euro 2.6 million, including a price adjustment of Euro 0.4 million relating to the earlier disposal of 34% of Chiara Assicurazioni S.p.A. on 24 April 2013).

The "2) A.4 Other income" caption comprises the difference between the residual equity and the value at the end of the prior year of the liquidated companies, Rovere (Euro 0.1 million) and CPC (Euro 5.3 million), net of the estimated cost of deregistering them. The comparative amount is related to the exchange gain recorded by Credito Privato Commerciale S.A. in liquidation on the conversion of its reporting currency (from Swiss francs to Euro) on 1 October 2015, following the essential completion of the liquidation process.

Section 18 - Goodwill impairment - caption 260

The results of the testing of the recoverability of goodwill recognised in the consolidated financial statements did not indicate the need for any write-downs.

Section 19 - Gains (losses) on disposal of investments - caption 270

19.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	31.12.2016	31.12.2015
A. Property		2
- Gains on disposal		2
- Losses on disposal		
B. Other assets		
- Gains on disposal		
- Losses on disposal		
Net result		**2**

Caption "A. Property" refers to gains/losses on the disposal of properties used in operations by Group companies; Caption "B. Other assets", on the other hand, refers to gains/losses on the sale of other assets.

Section 20 - Income taxes on current operations - caption 290

20.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2016	31.12.2015
1. Current taxes (-)	(2,635)	(24,389)
2. Change in prior period income taxes (+/-)	42	1,058
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(2,916)	14,907
5. Change in deferred tax liabilities (+/-)	3,493	2,727
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(2,016)	(5,697)

Taxation for the year benefited from the step-up for tax purposes (pursuant to art. 15, paragraph 10, of Legislative Decree 185/2008) of the goodwill recorded by the subsidiary Banca Popolare di Spoleto in the balance sheet for the contribution of the former branches of Banco Desio Toscana and Banco Desio Lazio by the transferring company Banco Desio for a total of Euro 8,068 thousand.

The positive effect on net profit for the year is Euro 1,377 thousand, due to the difference between the substitute tax paid of Euro 1,291 thousand (shown in caption 1) and the change in deferred tax assets of Euro 2,668 thousand (shown in caption 4).

The caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).

20.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	39,449		39,449	
Costs not deductible for IRAP purposes			36,935	
Revenue not taxable for IRAP purposes			(39,355)	
Sub total	39,449		37,029	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		**(10,849)**		**(2,063)**
Temporary differences taxable in subsequent years	(1,884)		(1,650)	
Temporary differences deductible in subsequent years	29,408		26,995	
Reversal of prior year temporary differences	(35,395)		(23,993)	
Differences that will not reverse in subsequent years	(29,540)		(24,287)	
Taxable income	2,038		14,094	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(560)**		**(785)**

Section 22 - Minority interests - caption 330

22.1 Details of caption 330 "Minority interests"

Company name	31.12.2016	31.12.2015
Consolidated equity investments with significant minority interests		
Rovere		36
Banca Popolare Spoleto	(14)	(602)
SPV Spoleto Mortgages - Separate assets		(8)
Total	**(14)**	**(574)**

Section 24 - Earnings per share

	31.12.2016		31.12.2015	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	22,503	3,048	33,619	4,553
Average number of shares outstanding	117,000,000	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	117,000,000	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	**0.19**	**0.23**	**0.29**	**0.34**
Diluted earnings per share (Euro)	**0.19**	**0.23**	**0.29**	**0.34**

24.1 Average number of ordinary shares (fully diluted)

There were no operations on share capital during the year nor any issues of financial instruments that could lead to the issue of shares; therefore, the average number of shares used to calculate diluted earnings per share is equal to 117,000,000 ordinary shares and 13,202,000 savings shares.

24.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions		31.12.2016 Gross amount	Income taxes	Net amount
10.	**Net profit (loss) for the period**			**25,537**
	Other elements of income, without reversal to income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined-benefit pension plans	(685)	189	(496)
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, with reversal to income statement			
70.	**Foreign investment hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
80.	**Exchange differences:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
90.	**Cash-flow hedges:**	**(2,757)**	**911**	**(1,846)**
	a) changes in fair value	(2,757)	911	(1,846)
	b) reversal to income statement			
	c) other changes			
100.	**Financial assets available for sale:**	**(12,594)**	**5,156**	**(7,438)**
	a) changes in fair value	(7,080)	3,321	(3,759)
	b) reversal to income statement	(2,981)	997	(1,984)
	- impairment adjustments	17	(5)	12
	- gains/losses on disposal	(2,998)	1,002	(1,996)
	c) other changes	(2,533)	838	(1,695)
110.	**Non-current assets and disposal groups held for sale:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
120.	**Portion of the valuation reserves of the equity investments carried at equity:**	**(772)**		**(772)**
	a) changes in fair value	(772)		(772)
	b) reversal to income statement			
	- impairment adjustments			
	- gains/losses on disposal			
	c) other changes			
130.	**Total other elements of income**	**(16,808)**	**6,256**	**(10,552)**
140.	**Total comprehensive income (Captions 10+130)**			**14,985**
150.	**Total comprehensive income pertaining to minority interests**			**554**
160.	**Total consolidated comprehensive income pertaining to Parent Company**			**15,539**

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 in the specific Consolidated Function Texts, as well as – for those cases where the Parent Company performs the internal control function for certain subsidiaries – in accordance with the provisions of the relevant Service Agreement.

The Board of Directors of the Parent Company approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. These documents provide for specific risk indicators with the relevant attention thresholds on an individual legal entity basis. 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, revolt 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), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; factoring; financial products, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Group's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Group has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Group also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

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 guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time.

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.

During the fact finding stages of the lending process, the Group performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment. During the process of granting credit, the Group operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

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. 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 internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies. 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. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due and/or overdrawn exposures, unlikely-to-pay and 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.

2.4. Impaired financial assets

Non-performing loans are classified as follows:

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Non-performing past due and/or overdrawn exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

Forborne exposures are individual transactions to a debtor, regardless of their classification as non-performing or performing, which would represent the subject of a "forbearance" (refinancing or modification of the contractual terms favourable for the debtor), if that forbearance is subsequent to the recognition of a present or future state of difficulty on the part of the debtor.

The Group has introduced a policy that lays down the criteria for making adjustments by codifying the rules that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral.

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 compared with the development of the individual position. The Risk Management Office of the Parent Company periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment and monitors the recovery of non-performing loans, both managed directly and through external specialised operators.

The time element linked to the present value of non-performing 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

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Doubtful loans	Unlikely to pay	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	1,749,913	1,749,913
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	112,838	112,838
4. Loans to customers	481,440	412,052	16,714	236,742	8,573,160	9,720,108
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31.12.2016	**481,440**	**412,052**	**16,714**	**236,742**	**10,435,911**	**11,582,859**
Total 31.12.2015	**443,926**	**411,964**	**48,666**	**387,635**	**10,178,308**	**11,470,499**

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	
1. Financial assets available for sale	-	-	-	1,749,913	-	1,749,913	1,749,913
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	112,838	-	112,838	112,838
4. Loans to customers	1,509,201	(598,995)	910,206	8,857,489	(47,587)	8,809,902	9,720,108
5. Financial assets designated at fair value through profit and loss	-	-	-			-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31.12.2016	**1,509,201**	**(598,995)**	**910,206**	**10,720,240**	**(47,587)**	**10,672,653**	**11,582,859**
Total 31.12.2015	**1,468,806**	**(564,250)**	**904,556**	**10,623,400**	**(57,457)**	**10,565,943**	**11,470,499**

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	31	17,329
2. Hedging derivatives	-	-	2,591
Total 31.12.2016	**-**	**31**	**19,920**
Total 31.12.2015	**-**	**-**	**20,239**

At 31 December 2016 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 82,596 thousand.

The portfolio of Loans to customers includes non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 31 December 2016 amounted to Euro 183,951 thousand. This difference essentially represents the write-downs made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (coverage ratio), it should be noted that the total amount of gross non-performing loans at 31 December 2016 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to Euro 1,693 million and total adjustments to Euro 783 million.

A.1.3 Banking Group – On- and off-balance sheet credit exposures to banks: gross and net amounts and past due bands

Types of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
b) Unlikely to pay	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
c) Past due non-performing loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
d) Past due performing loans					-		-	-
- of which: exposures subject to forbearance					-		-	-
e) Other performing exposures					209,039		-	209,039
- of which: exposures subject to forbearance					-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**209,039**	**-**	**-**	**209,039**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-		-		-
b) Performing					26,335		-	26,335
TOTAL B	**-**	**-**	**-**	**-**	**26,335**	**-**	**-**	**26,335**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**235,374**	**-**	**-**	**235,374**

A.1.4 Banking Group - On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are no such credit exposures at the reporting date.

A.1.4 bis Banking Group - On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.5 Banking Group - On-balance sheet credit exposures to banks: changes in total adjustments

There are no such credit exposures at the reporting date.

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

Types of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	334	9,956	27,261	900,819		(456,930)		481,440
- of which: exposures subject to forbearance	-	474	5,137	48,622		(27,341)		26,892
b) Unlikely to pay	194,560	58,357	90,669	208,048		(139,582)		412,052
- of which: exposures subject to forbearance	116,824	22,024	35,759	70,679		(58,592)		186,694
c) Past due non-performing loans	12,690	4,272	1,821	414		(2,483)		16,714
- of which: exposures subject to forbearance	9,527	2,100	119	22		(1,584)		10,184
d) Past due performing loans					240,720		(3,978)	236,742
- of which: exposures subject to forbearance					29,477		(822)	28,655
e) Other performing exposures					10,275,150		(43,609)	10,231,541
- of which: exposures subject to forbearance					155,361		(2,699)	152,662
TOTAL A	**207,584**	**72,585**	**119,751**	**1,109,281**	**10,515,870**	**(598,995)**	**(47,587)**	**11,378,489**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	12,805	-	-	53		(1,308)		11,550
b) Performing					410,066		(4,638)	405,428
TOTAL B	**12,805**	**-**	**-**	**53**	**410,066**	**(1,308)**	**(4,638)**	**416,978**
TOTAL (A+B)	**220,389**	**72,585**	**119,751**	**1,109,334**	**10,925,936**	**(600,303)**	**(52,225)**	**11,795,467**

The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 31 December 2016; details are provided below:

a) Doubtful loans: Euro 164,389 thousand;
b) Unlikely to pay: Euro 19,558 thousand;
c) Non-performing past due and/or overdrawn exposures: Euro 4 thousand

A.1.7 Banking Group - On-balance sheet credit exposures to customers: changes in gross non-performing loans

Description/Categories	Doubtful loans	Unlikely to pay	Past due non-performing loans
A. Opening gross exposure	**848,859**	**563,851**	**56,096**
- of which: exposure sold but not derecognised	6,694	10,406	1,838
B. Increases	**294,809**	**298,995**	**53,901**
B.1 transfers from performing positions	7,145	175,484	47,089
B.2 transfers from other categories of doubtful exposures	198,957	42,295	195
B.3 other increases	88,707	81,216	6,617
C. Decreases	**205,298**	**311,212**	**90,800**
C.1 transfers to performing positions		10,304	24,480
C.2 write-offs	132,409	14	-
C.3 collections	55,172	99,118	23,842
C.4 proceeds from disposal	8,633	-	-
C.5 losses on disposal	9,008	-	-
C.6 transfers to other categories of non-performing exposures	66	198,997	42,385
C.7 other decreases	10	2,779	93
D. Closing gross exposure	**938,370**	**551,634**	**19,197**
- of which: exposure sold but not derecognised	9,899	13,006	846

A.1.7 bis Banking Group - On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

Description/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	**242,401**	**165,114**
- of which: exposure sold but not derecognised	2,243	1,352
B. Increases	**121,372**	**96,512**
B.1 transfers from performing positions not subject to forbearance	26,998	86,388
B.2 transfers from performing positions subject to forbearance	37,995	
B.3 transfer from exposures subject to forbearance		8,061
B.4 other increases	56,379	2,063
C. Decreases	**52,486**	**76,788**
C.1 transfers to performing positions not subject to forbearance		8,657
C.2 transfers to performing positions subject to forbearance	8,061	
C.3 transfer to exposures subject to forbearance deteriorate		37,995
C.4 write-offs	734	
C.5 collections	42,100	26,723
C.6 proceeds from disposal	30	
C.7 losses on disposal		
C.8 other decreases	1,561	3,413
D. Closing gross exposure	**311,287**	**184,838**
- of which: exposure sold but not derecognised	3,367	2,964

A.1.8 Banking Group - On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans		Unlikely to pay		Past due non-performing loans	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	**404,933**	**5,475**	**151,887**	**54,514**	**7,430**	**3,458**
- of which: exposure sold but not derecognised	2,806	-	2,401	272	241	105
B. Increases	**250,328**	**23,646**	**84,778**	**30,333**	**1,897**	**1,745**
B.1 write-downs	118,611	9,853	67,535	11,580	1,824	1,002
B.2 losses on disposal	9,008	1				
B.3 transfers from other categories of non-performing exposures	69,977	13,715	2,842	11,750	44	
B.4 other increases	52,732	77	14,401	7,003	29	743
C. Decreases	**198,331**	**1,780**	**97,083**	**26,255**	**6,844**	**3,619**
C.1 measurement write-backs	33,433	247	19,859	10,131	2,117	1,463
C.2 writebacks on collection	16,158	753	7,598	2,543	1,499	796
C.3 gains on disposal	7,298	21				
C.4 write-offs	132,409	734	14			
C.5 transfers to other categories of doubtful exposures	25		69,609	13,581	3,228	1,360
C.6 other decreases	9,008	25	3			
D. Total closing adjustments	**456,930**	**27,341**	**139,582**	**58,592**	**2,483**	**1,584**
- of which: exposure sold but not derecognised	3,966	228	2,399	471	109	68

A.2 Classification of exposures based on external rating

A.2.1 Banking Group - 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.

A.2.2 Banking Group - 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 31.12.2016	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposure	64.40%	26.74%	7.31%	1.56%	100%
Off-balance sheet exposures	78.33%	17.63%	2.61%	1.42%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Banking Group - Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Banking Group - Guaranteed credit exposures to customers

		Secured guarantees (1)				Unsecured guarantees (2)									
						Credit derivatives					Endorsement credits				
							Other derivatives								
	Amount of net exposures	Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Government and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties	Total (1)+(2)
1. Guaranteed on-balance sheet exposures:	6,444,260	4,136,129	222,504	449,020	185,361							116,473	326	1,277,194	6,387,007
1.1. totally guaranteed	6,070,754	3,992,954	222,504	407,059	171,539							58,422	200	1,212,095	6,064,773
- of which: non-performing	*665,555*	*529,663*	*13,630*	*3,047*	*12,880*							*1,440*	*1*	*103,046*	*663,707*
1.2. partially guaranteed	373,506	143,175		41,961	13,822							58,051	126	65,099	322,234
- of which: non-performing	*156,781*	*137,959*		*603*	*2,685*							*1,654*	*1*	*10,271*	*153,173*
2. Guaranteed off-balance sheet exposures:	187,921	16,345		22,406	29,259								665	108,327	177,002
2.1. totally guaranteed	163,374	16,345		17,214	26,173									103,568	163,300
- of which: non-performing	*9,582*	*367*		*327*	*387*									*8,501*	*9,582*
2.2. partially guaranteed	24,547			5,192	3,086								665	4,759	13,702
- of which: non-performing	*26*			*6*										*18*	*24*

B. Distribution and concentration of credit exposures

B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.1

Exposures/Counterparties		Governments			Other public entities			Financial companies		
		Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures										
A.1 Doubtful loans		-	-		-	-		618	(1,213)	
- of which: exposures subject to forbearance		-	-		-	-		21	(60)	
A.2 Unlikely to pay		-	-		-	(424)		363	(333)	
- of which: exposures subject to forbearance		-	-		-	-		74	(110)	
A.3 Past due non-performing loans		-	-		7	(1)		1	-	
- of which: exposures subject to forbearance		-	-		-	-		-	-	
A.4 Performing loans		1,664,238		-	3,184		(5)	353,312		(1,524)
- of which: exposures subject to forbearance		-		-	-		-	1,085		(77)
Total A		**1,664,238**	**-**	**-**	**3,191**	**(425)**	**(5)**	**354,294**	**(1,546)**	**(1,524)**
B. Off-balance sheet exposures"										
B.1 Doubtful loans		-	-		-	-		-	-	
B.2 Unlikely to pay		-	-		-	-		-	-	
B.3 Other doubtful loans		-	-		-	-		-	-	-
B.4 Performing loans		387		-	13,307		-	4,066		(566)
Total B		**387**	**-**	**-**	**13,307**	**-**	**-**	**4,066**	**-**	**(566)**
Total (A+B)	**31.12.2016**	**1,664,625**	**-**	**-**	**16,498**	**(425)**	**(5)**	**358,360**	**(1,546)**	**(2,090)**
Total (A+B)	**31.12.2015**	**1,732,737**	**-**	**-**	**23,266**	**(293)**	**(6)**	**140,066**	**(1,271)**	**(1,378)**

B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties		Insurance companies			Non-financial companies			Other parties		
		Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures										
A.1 Doubtful loans		-	-		357,099	(510,080)		123,723	(110,026)	
- of which: exposures subject to forbearance		-	-		16,933	(19,148)		9,938	(8,133)	
A.2 Unlikely to pay		-	-		307,648	(131,501)		104,041	(26,882)	
- of which: exposures subject to forbearance		-	-		146,806	(50,209)		39,814	(8,273)	
A.3 Past due non-performing loans		-	-		12,501	(1,932)		4,205	(554)	
- of which: exposures subject to forbearance		-	-		7,837	(1,235)		2,347	(349)	
A.4 Performing loans		3,386		(1)	5,578,840		(39,973)	2,865,323		(6,084)
- of which: exposures subject to forbearance		-		-	139,921		(3,161)	40,311		(283)
Total A		**3,386**	**-**	**(1)**	**6,256,088**	**(643,513)**	**(39,973)**	**3,097,292**	**(137,462)**	**(6,084)**
B. Off-balance sheet exposures"										
B.1 Doubtful loans		-	-		1,952	(722)		18	(6)	
B.2 Unlikely to pay		-	-		7,775	(562)		50	(10)	
B.3 Other doubtful loans		-	-		1,201	(8)		30	-	
B.4 Performing loans		3,032		(1,686)	338,140		(2,376)	46,496		(10)
Total B		**3,032**	**-**	**(1,686)**	**349,068**	**(1,292)**	**(2,376)**	**46,594**	**(16)**	**(10)**
Total (A+B)	**31.12.2016**	**6,418**	**-**	**(1,687)**	**6,605,156**	**(644,805)**	**(42,349)**	**3,143,886**	**(137,478)**	**(6,094)**
Total (A+B)	**31.12.2015**	**3,761**	**-**	**(12)**	**6,623,991**	**(673,471)**	**(50,292)**	**3,013,000**	**(144,338)**	**(7,064)**

B.2 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	480,035	(620,708)	1,401	(561)	2	(6)	-	-	2	(44)
A.2 Unlikely to pay	411,760	(159,119)	292	(21)	-	-	-	-	-	-
A.3 Past due non-performing loans	16,714	(2,487)	-	-	-	-	-	-	-	-
A.4 Performing loans	10,454,874	(47,554)	12,430	(32)	427	-	552	(1)	-	
Total A	**11,363,383**	**(829,868)**	**14,123**	**(614)**	**429**	**(6)**	**552**	**(1)**	**2**	**(44)**
B. "Off-balance sheet" exposures										
B.1 Doubtful loans	1,970	(728)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	7,825	(572)	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	1,231	(8)	-	-	-	-	-	-	-	-
B.4 Performing loans	404,544	(4,638)	884	-	-	-	-	-	-	-
Total B	**415,570**	**(5,946)**	**884**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total A+B at 31.12.2016	**11,778,953**	**(835,814)**	**15,007**	**(614)**	**429**	**(6)**	**552**	**(1)**	**2**	**(44)**
Total A+B at 31.12.2015	**11,443,657**	**(877,362)**	**91,366**	**(690)**	**1,489**	**(20)**	**234**	**(1)**	**41**	**(51)**

B.3 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures											
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-	-
A.4 Performing loans		199,855	-	4,503	-	2,438	-	2,160	-	83	-
Total A		**199,855**	**-**	**4,503**	**-**	**2,438**	**-**	**2,160**	**-**	**83**	**-**
B. Off-balance sheet exposures"											
B.1 Doubtful loans		-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
B.3 Other doubtful loans		-	-	-	-	-	-	-	-	-	-
B.4 Performing loans		19,742	-	3,886	-	-	-	2,707	-	-	-
Total B		**19,742**	**-**	**3,886**	**-**	**-**	**-**	**2,707**	**-**	**-**	**-**
Total A+B	**31.12.2016**	**219,597**	**-**	**8,389**	**-**	**2,438**	**-**	**4,867**	**-**	**83**	**-**
Total A+B	**31.12.2015**	**328,505**	**-**	**57,573**	**-**	**2,583**	**-**	**5,250**	**-**	**330**	**-**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2016 is reported below:

Description	***Nominal amount***	***Weighted amount***	***Number of positions***
Large exposures	2,120,056	172,982	2

The two positions indicated relate to exposures towards the Italian Government relating to securities in portfolio and tax assets, and Cassa di Compensazione e Garanzia.

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

The information in this Part applies to transactions entered into by the subsidiary Banca Popolare di Spoleto SpA.

In 2003, Banca Popolare di Spoleto has put in place a performing loan securitisation as originator, SPV: Spoleto Mortgages (this transaction was closed in February 2016).

Junior securities and subordinated loans

Spoleto Mortgages

The first quarter of the year saw the early termination of the securitisation launched in 2003 with the setting up of the SPV "Spoleto Mortgages Srl". The Bank repurchased the portfolio of outstanding receivables, together with the interest and all ancillary rights; BPS's obligation for the selling price was subject to partial compensation with the receivable, also owed to BPS, for the excess spread of Euro 3.9 million. BPS recorded a gain of Euro 1.1 million on this buy-back.

Quantitative information

C.1 Banking Group - Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

None.

C.2 Banking Group - Exposures arising from principal "third party" securitisations broken down by type of securitised asset and by type of exposure

None

E. Asset disposals

Quantitative information

E.1 Banking Group - Financial assets sold but not derecognised: book value and full value

E.2.1 Banking Group - Financial assets sold but not derecognised: book value and full value

p.1

Technical forms/Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss		
	A	B	C	A	B	C
A. Cash assets						
1. Debt securities						
2. Equity						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2016						
of which: non-performing						
Total 31.12.2015						
of which: non-performing						

E.2.1 Banking Group - Financial assets sold but not derecognised: book value and full value

p.2

Technical forms/Portfolio	Financial assets available for sale			Financial assets held to maturity		
	A	B	C	A	B	C
A. Cash assets	**104,256**					
1. Debt securities	104,256					
2. Equity						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2016	**104,256**					
of which: non-performing						
Total 31.12.2015	**208,447**					
of which: non-performing						

E.2.1 Banking Group - Financial assets sold but not derecognised: book value and full value

p.3

Technical forms/Portfolio	Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	31.12.2016	31.12.2015
A. Cash assets							**104,256**	**208,447**
1. Debt securities							104,256	208,447
2. Equity instruments								
3. Mutual funds								
4. Loans								
B. Derivatives								
Total 31.12.2016							**104,256**	
of which: non-performing								
Total 31.12.2015								**208,447**
of which: non-performing								

Key:

A= Financial assets sold and recognised in full (book value)

B = Financial assets sold and recognised in part (book value)

C = Financial assets sold and recognised in part (full value)

E.2.2 Banking Group - Financial liabilities pertaining to financial assets sold but not derecognised: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
2. Due to banks							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
3. Debt securities in issue							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
Total 31.12.2016							
Total 31.12.2015			**152,105**				**152,105**

F. Banking Group - Credit risk measurement models

Group companies do not use internal portfolio models for measuring exposure to credit risk.

1.2 Banking Group - 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 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 controls to all companies in the Banking Group.

Trading by the Parent Company's Finance Department is undertaken only for the 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 Value at Risk (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. 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 VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is the infoprovider Bloomberg.

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

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,867**	**1**	**1**	**4**	**2**	**-**	**2,781**	**-**
1.1 Debt securities	1,867	1	1	4	2	-	2,781	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,867	1	1	4	2	-	2,781	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	19	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	19	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	14,019	29,050	-	-
+ Short positions	-	-	-	-	12,488	30,582	-	-
- Other								
+ Long positions	-	252,193	6,006	6,983	7,463	-	1,153	-
+ Short positions	8,137	244,018	10,727	7,577	1,593	2,138	5,064	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	239,210	5,888	7,131	-	-	-	-
+ Short positions	-	233,651	5,888	7,132	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

There are no such contractual arrangements at the reporting date.

3. Regulatory trading book: internal models and other methodologies used for sensitivity analysis

The monitoring of the "trading portfolio reported for supervisory purposes" in the second half of 2016 evidenced a structure with limited market risks. Related VaR at 31.12.2016 amounted to Euro 65 thousand, with a percentage of 0.95% 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 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.

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 Gap Analysis. 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.

B. Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group 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 (fixed rate mortgage loans granted) and liabilities (bonds issued). As regards assets, various types of hedges represented by Group micro and macro hedges as well as specific micro-hedges have been implemented. As regards liabilities, on the other hand, all hedging involves specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - mainly interest rate swaps and interest rate options - but 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 (international IAS / IFRS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

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 uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but 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 (international IAS / IFRS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,640,835**	**6,034,954**	**892,835**	**353,353**	**1,643,865**	**706,694**	**235,822**	**2,461**
1.1 Debt securities	-	271,938	536,554	135,745	524,466	281,962	10,473	-
- with early redemption option	-	14,798	-	-	2,548	-	1,029	-
- other	-	257,140	536,554	135,745	521,918	281,962	9,444	-
1.2 Loans to banks	8,116	78,591	-	-	-	-	1,428	-
1.3 Loans to customers	1,632,719	5,684,425	356,281	217,608	1,119,399	424,732	223,921	2,461
- current accounts	947,789	677,935	6,137	8,179	82,673	64	4	-
- other loans	684,930	5,006,490	350,144	209,429	1,036,726	424,668	223,917	2,461
- with early redemption option	158,935	4,167,392	249,972	131,843	423,988	216,695	223,640	-
- other	525,996	839,098	100,172	77,586	612,739	207,973	277	2,461
2. Cash liabilities	**6,630,471**	**1,840,042**	**526,894**	**349,542**	**1,627,091**	**11,767**	**13,298**	**-**
2.1 Due to customers	6,424,386	1,344,662	410,184	263,642	164,702	7,402	10,121	-
- current accounts	6,257,646	1,339,150	398,494	182,151	147,193	-	-	-
- other payables	166,740	5,512	11,690	81,491	17,509	7,402	10,121	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	166,740	5,512	11,690	81,491	17,509	7,402	10,121	-
2.2 Due to banks	161,659	-	-	-	800,000	-	-	-
- current accounts	25,543	-	-	-	-	-	-	-
- other payables	136,166	-	-	-	800,000	-	-	-
2.3 Debt securities	44,426	495,380	116,710	85,900	662,389	4,365	3,177	-
- with early redemption option	-	18,508	-	-	-	-	-	-
- other	44,426	476,872	116,710	85,900	662,389	4,365	3,177	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	104	397	-	3	-	-	-
+ Short positions	-	492	-	-	11	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	31,098	48,147	56,447	321,932	121,561	42,492	-
+ Short positions	-	517,014	7,860	1	26,452	70,352	-	-
- Other								
+ Long positions	-	170,210	-	10,000	-	-	-	-
+ Short positions	1,989	39,704	85	173	51,469	81,545	5,246	-
4. Other off-balance sheet transactions								
+ Long positions	(55,263)	-	-	-	-	-	-	-
+ Short positions	55,263	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**6,233**	**59,496**	**3,878**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	4,110	5,677	2,300	-	-	-	-	-
1.3 Loans to customers	2,123	53,819	1,578	-	-	-	-	-
- current accounts	609	-	-	-	-	-	-	-
- other loans	1,514	53,819	1,578	-	-	-	-	-
- with early redemption	948	7,736	678	-	-	-	-	-
- other	566	46,083	900	-	-	-	-	-
2. Cash liabilities	**70,694**	**917**	**2,300**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	70,446	545	2,300	-	-	-	-	-
- current accounts	70,446	545	2,300	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	248	372	-	-	-	-	-	-
- current accounts	1	-	-	-	-	-	-	-
- other payables	247	372	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet								
+ Long positions	-	(299)	-	-	-	-	-	-
+ Short positions	-	299	-	-	-	-	-	-

2. 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 of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits. This has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

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 31 December 2016, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31 December 2016

	+100 bps	***-100*** bps
% of the expected margin	*0.32%*	*-20.37%*
% of net interest and other banking income	*0.18%*	*-11.89%*
% of the result of the year	*1.47%*	*-94.77%*
% of shareholders' equity	*0.08%*	*-5.07%*

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 second half of 2016 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 31.12.2016

	+100 bps	***-100*** bps
% of the economic value	*-3.75%*	*2.78%*

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

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US Dollar	**Pound Sterling**	**Yen**	**Swiss Franc**	**Other currencies**
A. Financial assets	**58,691**	**2,628**	**3,766**	**4,256**	**1,144**
A.1 Debt securities					
A.2 Equity instruments	876				
A.3 Loans to banks	7,897	1,763	29	1,358	1,043
A.4 Loans to customers	49,918	865	3,737	2,898	101
A.5 Other financial assets					
B. Other assets	**356**	**217**	**37**	**101**	**66**
C. Financial liabilities	**60,737**	**3,833**	**780**	**3,831**	**1,889**
C.1 Due to banks	247			372	4
C.2 Due to customers	60,490	3,833	780	3,459	1,885
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**2,630**	**49**		**368**	**7**
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other					
+ Long positions	189,441	34,860	9,355	15,302	3,272
+ Short positions	184,302	32,014	12,509	15,365	2,482
Total assets	**248,488**	**37,705**	**13,158**	**19,659**	**4,482**
Total liabilities	**(247,669)**	**(35,896)**	**(13,289)**	**(19,564)**	**(4,378)**
Net balance (+/-)	**819**	**1,809**	**(131)**	**95**	**104**

2. Internal models and other methodologies for 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.

1.2.4 Financial instruments

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**32,500**		**46,601**	
a) Options	5,726		7,344	
b) Swap	26,774		39,257	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices	**19**			**11**
a) Options	19			11
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold	**477,733**		**504,821**	
a) Options				
b) Swap				
c) Forward	477,733		504,821	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**510,252**		**551,422**	**11**

A.2 Banking book: period-end notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**171,887**	**-**	**330,506**	**-**
a) Options	9,577	-	12,038	-
b) Swap	162,310	-	318,468	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**171,887**	**-**	**330,506**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**53,700**	**-**	**68,700**	**-**
a) Options	35,800	-	45,800	-
b) Swap	17,900	-	22,900	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**1,837**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	1,837	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**53,700**	**-**	**70,537**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**12,156**		**11,759**	**11**
a) Options	23		10	11
b) Interest rate swaps	9,887		9,689	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	2,246		2,060	
f) Futures				
g) Other				
B. Banking book - hedging	**2,591**		**4,601**	
a) Options	10		25	
b) Interest rate swaps	2,581		4,576	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	**535**		**1,000**	
a) Options				
b) Interest rate swaps	535		995	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards			5	
f) Futures				
g) Other				
Total	**15,282**		**17,360**	**11**

A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**6,230**		**5,148**	
a) Options			4	
b) Interest rate swaps	4,074		3,128	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	2,156		2,016	
f) Futures				
g) Other				
B. Banking book - hedging	**6,637**		**24,758**	
a) Options				
b) Interest rate swaps	6,637		24,758	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**12,867**		**29,906**	

A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value			3,968				280
- positive fair value			3				21
- negative fair value							
- future exposure			48				1
2. Equities and equity indices							
- notional value				19			
- positive fair value				19			
- negative fair value							
- future exposure				19			
3. Currencies and gold							
- notional value			209,946	222,044		24,789	20,954
- positive fair value			1,509	345		376	16
- negative fair value			368	1,212		447	129
- future exposure			2,099	2,220		248	210
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - trading portfolio for supervisory purposes: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value			28,252				
- positive fair value			9,867				
- negative fair value			4,074				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value			225,587				
- positive fair value			3,126				
- negative fair value			6,637				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	**487,096**	**10,201**	**12,956**	**510,253**
A.1 Financial derivatives linked to debt securities and interest rates	9,363	10,182	12,956	32,501
A.2 Financial derivatives linked to equities and stock indices		19		19
A.3 Financial derivatives linked to exchange	477,733			477,733
A.4 Financial derivatives linked to other				
B. Banking book	**77,750**	**53,735**	**94,102**	**225,587**
B.1 Financial derivatives linked to debt securities and interest rates	77,750	53,735	94,102	225,587
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange				
B.4 Financial derivatives linked to other				
Total 31.12.2016	**564,846**	**63,936**	**107,058**	**735,840**
Total 31.12.2015	**709,989**	**86,593**	**162,501**	**959,083**

C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative			**26,463**				
- positive fair value			15,415				
- negative fair value			9,198				
- future exposure			1,850				
- net counterparty risk							
2) Bilateral credit derivative							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty 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 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 of the Parent Company 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.

Self-securitisation transactions

Note that on 9 December 2011, Banca Popolare di Spoleto completed a self-securitisation, which led to the sale of a package of Euro 425 million of residential mortgages to the SPV "Spoleto Mortgages 2011 - Società per la Cartolarizzazione Srl".

The SPV issued Euro 320 million of senior notes and Euro 105 million of junior notes on 6 March 2012; the securities were purchased entirely by Banca Popolare di Spoleto, which therefore holds 100% of the securities issued by the SPV.

At 31 December 2016, the nominal residual values of these notes amounted to Euro 223,212 thousand.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,823,076**	**226,639**	**63,024**	**301,635**	**914,252**	**531,968**	**843,520**	**3,825,136**	**3,234,624**	**78,591**
A.1 Government securities	-	-	462	-	22,555	40,029	142,617	581,502	860,404	-
A.2 Other debt securities	78	26	23	5,302	2,759	5,756	10,688	60,603	37,486	-
A.3 Mutual funds	78,253	-	-	-	-	-	-	-	-	-
A.4 Loans	1,744,745	226,613	62,539	296,333	888,938	486,183	690,215	3,183,031	2,336,734	78,591
- Banks	8,107	-	-	-	-	-	-	-	1,428	78,591
- Customers	1,736,638	226,613	62,539	296,333	888,938	486,183	690,215	3,183,031	2,335,306	-
Cash liabilities	**7,317,123**	**32,944**	**78,378**	**173,369**	**510,492**	**499,989**	**389,768**	**1,932,673**	**106,032**	**-**
B.1 Deposits and current accounts	7,278,939	31,943	36,551	112,772	342,833	410,831	264,347	159,833	-	-
- Banks	36,309	-	-	-	-	-	-	-	-	-
- Customers	7,242,630	31,943	36,551	112,772	342,833	410,831	264,347	159,833	-	-
B.2 Debt securities	3,758	1,001	41,827	60,597	167,659	71,076	107,339	878,648	86,741	-
B.3 Other liabilities	34,426	-	-	-	-	18,082	18,082	894,192	19,291	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	7,955	529	214,286	11,648	6,122	6,983	3	-	-
- Short positions	-	13,800	521	214,214	11,651	5,717	6,981	118	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	9,891	-	-	2,495	52	-	121	-	-	-
- Short positions	4,075	-	-	85	246	221	437	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	1,219	-	-	362	3,290	1,633	5,998	23,487	40,417	-
- Short positions	76,407	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	1	-	-	-	13	65	216	260	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,481**	**931**	**10,983**	**26,876**	**21,108**	**3,909**	**34**	**212**	**544**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	14	-
A.3 Mutual funds	11	-	-	-	-	-	-	-	-	-
A.4 Loans	5,470	931	10,983	26,876	21,108	3,909	34	212	530	-
- Banks	4,110	931	-	4,751	-	2,310	-	-	-	-
- Customers	1,360	-	10,983	22,125	21,108	1,599	34	212	530	-
Cash liabilities	**70,696**	**372**	**-**	**-**	**545**	**2,307**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	70,449	372	-	-	545	2,307	-	-	-	-
- Banks	1	372	-	-	-	-	-	-	-	-
- Customers	70,448	-	-	-	545	2,307	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	247	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	13,345	545	213,279	12,041	5,888	7,131	-	-	-
- Short positions	-	7,775	556	213,279	12,040	5,888	7,132	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	299	-	-	-	-	-	-	-	-
- Short positions	-	299	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

<u>Qualitative information</u>

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:

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised both for the Parent Company and for the subsidiaries Banca Popolare di Spoleto and Fides:

- 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.

The Parent Company's Risk Management Office applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system has been implemented and is capable of providing information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals. In 2016, the reporting system was supplemented with a specific focus on the subject of IT risk and anti-money laundering risk.

In compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), the Group set up the Security and ICT Governance Function (within the Parent Company) and adopted:

- Security Policy;
- Accident Management;
- IT Risk Methodology.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been prepared: 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 Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations (Desio, Spoleto), to be used in the event of an emergency and for testing purposes. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

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", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific bodies.

Risk related to outstanding legal disputes

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. The following table summarises the outstanding disputes at the end of the year, together with the related provisions:

	Number	**Claim**	**Provisions**
Claw-back suits	23	€ 25.255 million	€ 4.437 million
Other lawsuits	655	€ 152.915 million	€ 14.125 million

The above disputes include 34 counterclaims totalling about Euro 7.6 million made against BPS in relation to loan recovery proceedings. These disputes were considered when assessing the related lending exposures (provisions total about Euro 420 thousand).

The principal disputes (claims in excess of Euro 1 million) involving Banco di Desio e della Brianza are described below:

- CLAIM € 2.692 million. Plaintiff FAIRFIELD. 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 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 the Funds. On 27 January 2017 the Bank signed a motion proposed by the majority of the defendants asserting the lack of jurisdiction of the New York Court and requesting that the case be filed;
- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. 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. The next hearing is scheduled in June 2017 for the conclusions;
- 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. With judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty in its entirety. By application filed on 6 June 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second instance. The court has not yet set the date for the hearing;

- CLAIM: € 2 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. paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The court has not yet set the date for the hearing;
- 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 contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing;
- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.; the counterparty appealed, but the court has rejected the petition. The ruling has been challenged by the company and the guarantors by an appeal to the Supreme Court;
- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose draft report appears to be in favour of Banco Desio della Brianza S.p.A.; the company appealed and the court rejected the petition. It is not currently known if an appeal will be made to the Supreme Court;
- CLAIM € 10.000 million. The company opposed the injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco di Desio e della Brianza 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. Rome Court ruling no. 16109/2016 ordered the counterparty to pay Banco Desio the recalculated amount of Euro 174,616.45 plus the late-payment interest specified in our main application. The judge rejected the counterclaim and ordered the counterparty to pay legal fees of € 5,500 and related expenses and to reimburse the costs of the court expert. The counterparty has challenged this ruling by filing an appeal. The first hearing is scheduled for 10 February 2017;

- CLAIM € 1.818 million. The plaintiff was declared bankrupt in 2015 after being admitted to the Extraordinary Administration Procedure in 2011. A summons has been notified to Banco di Desio e della Brianza S.p.A. concerning the bankruptcy clawback of € 1.818 million. The officials of the bankruptcy proceedings decided to sue, contesting certain movements that seemed to indicate anomalous activity on the plaintiff's account. The Bank questioned that they were revocable remittances, as they were actually mere accounting transactions carried out in the execution of the restructuring agreement as per art. 67 paragraph 2, letter d) of the Bankruptcy Law and, as such, could not be revoked. The case is under investigation.

The principal disputes (claims in excess of Euro 1 million) involving Banco Popolare di Spoleto are described below:

- CLAIM € 3 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim that was challenged before the Court of Appeal of Perugia. The court rejected the request for an investigation advanced by the appellant and set 25 May 2017 as the date for hearing the closing remarks;
- CLAIM € 1.933 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum € 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the judge did not address conduct attributable to the Bank. The case is waiting for the assignment of another judge, as the original judge has been transferred to another location;
- CLAIM € 4.7 million: the Receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia for it to be ordered to refund Euro 4.7 million. The Receiver assumes that the Bank permitted an abnormal transaction to be carried out by a person not entitled to do so on behalf of the company. The Bank is disputing the legitimacy of the Receiver, the total groundlessness of the claims, as well as the existence of a causal link between the conduct of BPS and the bankruptcy of the company. On 12 January 2017 the judge identified the court expert and set 23 March 2017 as the date for the swearing in;
- CLAIM € 1.461 million: with an appeal served in 2013, a former employee appealed against the interruption of his employment contract by Banca Popolare di Spoleto S.p.A., asking for the Bank to be condemned to pay the salary disparity allegedly not paid, his re-employment or, as an alternative, an order to pay damages. The Bank appealed, arguing the legality of the dismissal which was for serious acts performed by the former employee. The next hearing will be held on 4 May 2017 for a discussion between the parties;

- CLAIM € 1.526 million: by writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A. before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Bank has stated that it is not involved, given the contribution to Banca Popolare di Spoleto S.p.A. of the relationship concerned, as part of the special transaction that transferred the line of business consisting of 32 branches; Banca Popolare di Spoleto has objected to the merits of the application. The judge has not yet decided how to investigate the case;
- CLAIM € 2.305 million: the receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) € 1.904 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) € 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question. The first hearing is scheduled for 6 April 2017;
- CLAIM € 10.421 million: the counterparty proposed proceedings under art. 67 of the bankruptcy law in order to obtain repayment of the sum of € 10.412 million represented by the remittances collected in the period between 14 October 2007 and 14 October 2008 (i.e. in the year prior to admission to the extraordinary administration procedure) on accounts held by the counterparty at the Bank. The next hearing is fixed for 11 July 2017 in order to discuss the findings of the court expert;
- CLAIM € 7.310 million: with a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto S.p.A. together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2/12/2009, and therefore about three years before the declaration of bankruptcy (judgment 21/3/2013), Banca Popolare di Spoleto, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or public administration, for an amount of € 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The judge rejected all of the preliminary instances proposed by the Receivership. The hearing of the final conclusions has been set for 21 March 2017;
- CLAIM € 1.744 million: the company, as well as the guarantors, sued Banca Popolare di Spoleto S.p.A. before the Court of Spoleto in order to hear, ascertain and declare the application of usurious interest, asking the Court for payment by the Bank of € 338 thousand for interest allegedly not due, in addition to € 169 thousand by way of damages for the company and € 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith. The next hearing for the acceptance of evidence has been set for 3 May 2017. This case appears to be unfounded, given the favourable jurisprudence regarding similar situations and the general nature of the application for damages;

- CLAIM € 3.3 million: in a summons rejecting the injunction obtained by Banca Popolare di Spoleto S.pA., the counterparty has call the Bank to court alleging that the injunction was illegitimate for various reasons. The counterparty has counterclaimed, requesting that the Bank and another three counterparties be ordered to pay damages totalling € 3.3 mln. The Bank promptly appeared in court to contest all claims and exceptions. The judge rejected the request to suspend provisional enforcement of the opposing injunction, limiting the scope of the matter to the following issues: usury and compound interest charges; the judge also referred the counterclaim advanced by the counterparty to the special business section of the Perugia Court. The appraisal prepared by the Bank's expert has identified that the claims of the counterparty in the opposing injunction are essentially unfounded. The hearing for the acceptance of evidence has been set for 7 March 2017.

* * *

Banca Popolare di Spoleto, as jointly liable, has taken steps to maintain appropriate funds set up with reference to penalties imposed to two employees that the Ministry of Economy accused of money laundering (in accordance with Law 197/91) for events dating back to 2005 and 2006 of which the Bank only became aware in 2008. The hearing of the conclusions has been scheduled for 16 November 2017.

Risks related to outstanding tax litigations

On 23 December, the Lombardy Regional Tax Office - Large Tax Payers Office served tax assessments on the Bank for the year 2011, for IRES and IRAP.

The notices of assessment follow the discussions with the Lombardy Regional Tax Office - Large Tax Payers Office (on which information was given in the notes to the 2015 financial statements), as a result of which the Tax Office has, on the one hand, abandoned the allegations of artificial foreign domicile of the former subsidiaries CPC and Rovere contained in the reports on findings notified by the Tax Police and, on the other, has presented claims against the Bank in relation to the "transfer pricing" issue.

In particular, the latter concern the Bank's failure to recharge the so-called "coordination costs" to Rovere and CPC.

As a result of these assessments, the Tax Authorities have requested the Bank to pay additional taxes, penalties and interest totalling Euro 99 thousand, of which Euro 86 thousand for Ires and Euro 13 thousand for Irap.

With regard to the Irap claim, the Bank has decided to pay the disputed amounts. With regard to the Ires claim, the penalty levied is believed to be incorrect and the Bank will request a partial correction of the assessment (by Euro 8 thousand) before agreeing to pay. On payment, the amount of Euro 91 thousand will be expensed and offset by release of the related provision that has already been recorded.

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. The next hearing is scheduled for 2 March 2017. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately € 30 million, broken down according to their respective responsibilities.

Quantitative information

The number of detrimental events recorded by the Group in the course of 2016 comes to 2,233. The result of the process of collecting adverse events is summarised in the table below:

Event type	% events	% gross loss of total	% net loss of total	% 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	0.31%	3.42%	3.44%	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	3.76%	12.64%	12.51%	1.56%
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	0.72%	4.93%	4.96%	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)	16.35%	41.91%	42.12%	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	1.39%	0.90%	0.83%	7.92%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.40%	0.80%	0.79%	1.08%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	77.07%	35.40%	35.35%	0.64%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**0.51%**

The gross operating loss comes to Euro 5,836 thousand, for which prudent provisions were made during the year of Euro 4,105 thousand. Of the total gross loss, an amount was recovered of Euro 29 thousand, resulting in a net loss of Euro 5,807 thousand.

PART F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. 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.

B. Quantitative information

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

Captions	Banking Group	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.2016
Share capital	125.347				125.347
Share premium reserv e	31.570				31.570
Reserv es	725.250				725.250
- rev enue reserv es:	707.638				707.638
a) legal reserv e	90.189				90.189
b) statutory reserv e	517.422				517.422
c) reserv e for treasury shares	51				51
d) other	99.976				99.976
- other	17.612				17.612
Equity instruments					
(Treasury shares)	(51)				(51)
Valuation reserv es:	10.848				10.848
- Financial assets av ailable for sale	(7.459)				(7.459)
- Property, plant and equipment					
- Intangible assets					
- Foreign inv estment hedges					
- Cash-flow hedges	(1.783)				(1.783)
- Exchange differences					
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(2.806)				(2.806)
- Portion of v aluation reserv es relating to inv estments carried at equity					
- Special rev aluation laws	22.896				22.896
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	25.537				25.537
Shareholders' equity	**918.501**				**918.501**

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	(342)	(7,955)							(342)	(7,955)
2. Equity instruments	3,703								3,703	
3. Mutual funds	960	(3,233)							960	(3,233)
4. Loans										
Total 31.12.2016	**4,321**	**(11,188)**							**4,321**	**(11,188)**
Total 31.12.2015	**4,591**	**(4,694)**							**4,591**	**(4,694)**

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	Mutual funds	Loans
1. Opening balance	**1,702**	**397**	**(2,038)**	
2. Positive changes	**3,837**	**3,490**	**1,861**	
2.1 Fair value increases	1,286	3,490	981	
2.2 Reversal to income statement of negative reserves	1,622		473	
- from impairment	11			
- from disposals	1,611		473	
2.3 Other changes	929		407	
3. Negative changes	**(13,836)**	**(184)**	**(2,096)**	
3.1 Fair value decreases	(8,112)		(1,404)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserve: from disposals	(3,418)		(661)	
3.4 Other changes	(2,306)	(184)	(31)	
4. Closing balance	**(8,297)**	**3,703**	**(2,273)**	

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a negative effect of Euro 496 thousand (net of the related tax effect of 189 thousand euro) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

The scope of consolidation, defined in accordance with current prudential regulations, 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 Bank own funds

A. Qualitative information

Own funds, as the basis of the capital adequacy requirements that banks must satisfy, are calculated in accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework).

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

As at 31 December 2016, Banco Desio Group's Own Funds consist of the following:

Description	31.12.2016	31.12.2015
Common Equity Tier 1 (CET 1)	877,773	860,154
Additional Tier 1 capital (AT1)	11,432	10,568
Tier 2 capital (T2)	195,782	235,348
Total Own Funds	**1,084,987**	**1,106,070**

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

Own Funds

	31.12.2016	**31.12.2015**
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	885,675	884,433
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-18	-291
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	885,657	884,142
D. Items to be deducted from CET 1	18,594	24,738
E. Transitional provisions – Impact on CET 1 (+/-), inclusive of minority interests subject to transitional provisions	10,710	750
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	**877,773**	**860,154**
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	14,178	13,862
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	-2,746	-3,294
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**11,432**	**10,568**
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	195,407	234,424
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	375	924
P. Total Tier 2 (T2) (M - N +/- O)	**195,782**	**235,348**
Q. Total Own Funds (F + L + P)	**1,084,987**	**1,106,070**

2.3 Capital adequacy

A. 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 80.91% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 1.05% and 18.04%, respectively, of Own Funds.

For the purpose of prudential supervision regulations, the Board of the 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. Ahead of formal clarification from the European authorities about the determination of supervisory capital, reference was made to the indications contained in the Bank of Italy communication dated 23 January 2017, which allows "less significant" banks that have exercised the option envisaged in Bank of Italy Circular 285 to continue excluding from own funds the profits and losses on exposures to central administrations recorded in the "Financial assets available for sale" portfolio.

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

- CET 1/ risk-weighted assets	10.899%
- T1/risk-weighted assets	11.041%
- Total Own Funds/risk-weighted assets	13.472%

These figures are again well above the Group's minimum requirements as requested at the end of the Supervisory Review and Evaluation Process (SREP) by the Bank of Italy in August 2015, which confirmed the following minimum levels for the consolidated capital ratios:

- CET 1/ risk-weighted assets	7.000%
- T1/risk-weighted assets	8.500%
- Total Own Funds/risk-weighted assets	10.500%

In August 2015, at the end of the Supervisory Review and Evaluation Process (SREP), the Supervisory Authority defined the following minimum levels for the consolidated capital ratios:

- **7% for Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 5% (of which 4.5% for the minimum regulatory requirements and 0.5% for additional requirements);
- **8.5% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.7% (of which 6% for the minimum regulatory requirements and 0.7% for additional requirements);
- **10.5% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.9% (of which 8% for the minimum regulatory requirements and 0.9% for additional requirements).

On 9 January 2017, the Bank of Italy notified the Parent Company about the start of procedures for imposing additional capital requirements following completion of the Supervisory Review and Evaluation Process (SREP) 2016, with application from the report on own funds subsequent to the issue date of the measure (within 90 days of the start of the procedures). Accordingly, the Group will be required to apply the following:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;
- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.7% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

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.

B. Quantitative information

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	**12,468,280**	**12,502,276**	**7,216,913**	**7,089,800**
1. Standardised methodology	12,467,809	12,501,738	7,216,442	7,089,262
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	471	537	471	537
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**577,353**	**567,184**
B.2 Risk of credit valuation adjustment			**1,446**	**1,828**
B.3 Regulatory risk				
B.4 Market risks			**1,045**	**441**
1. Standardised methodology			1,045	441
2. Internal models				
3. Concentration risk				
B.5 Operational risk			**64,447**	**65,042**
1. Basic approach			64,447	65,042
2. Standardised approach				
3. Advanced approach				
B.6 Other items			0	0
B.7 Total precautionary requirements			**644,291**	**634,495**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			8,053,639	7,931,181
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			10.899%	10.845%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			11.041%	10.978%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			13.472%	13.946%

For the purpose of calculating point C "Risk assets and capital ratios" the EU regulation provides for a facilitated weighting (with a support factor of 0.7619) for Small and Medium-sized Enterprises (SMEs)

PART G – BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

During the year there were no business combinations, as regulated by IFRS 3 - business combinations, with impact on the consolidated financial statements.

Note that in the previous year, the following transactions were performed from 1 April 2015:

- contribution of a business unit consisting of 32 branches by Banco di Desio e della Brianza to its subsidiary Banca Popolare di Spoleto;
- sale of the Milan branch by the subsidiary Banca Popolare di Spoleto to the Parent Company Banco di Desio e della Brianza.

Business combination between entities under common control: these business combinations are excluded from the scope of IFRS 3. Given that the accounting treatment is not specifically regulated by IAS/IFRS, reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements". In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations were carried out after year-end.

SECTION 3 - RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the year.

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of managers with strategic responsibilities

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, which also includes information on the Group's stock grant and stock option plans.

2 - 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 Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" section.

Given that, 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[2];

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,

there have been no transactions worth mentioning.

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 31 December 2016 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, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance

[2] 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)

of current accounts and of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & Stefano Lado SapA at Banco Desio amounted to Euro 134.1 million, of which Euro 132.8 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

During the 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

The entire equity interest held by the Bank in Chiara Assicurazioni Spa, representing 32.66% of the share capital (4,054,001 ordinary shares) was sold Helvetia Compagnia Svizzera D'Assicurazioni SA on 23 December 2016.

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

This transaction is described further in the Report on Operations during the year ended 31 December 2016.

On 11 January 2016, the Board of Directors of the Parent Company agreed to continue negotiations to sell its investment in Istifid SpA. On 13 April 2016, Banco Desio signed a preliminary agreement for the sale of their entire investment in Istifid S.p.A. to Unione Fiduciaria S.p.A., which was completed on 2 May 2016.

Part of the proceeds from the sale of the Istifid's shares has been reinvested by Banco to purchase 15,050 shares of Unione Fiduciaria S.p.A. (percentage ownership: 1.394% of the share capital).

This transaction is described further in the Report on Operations during the year ended 31 December 2016.

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. These services are now excluded from the scope of application of the rules on Related Party Transactions in consideration of the sale of the business unit that provides such services on 16 January 2015 to Computershare SpA.

IV - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2016 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 33 positions existing at 31 December 2016 comes to some Euro 9.8 million and the related utilisations amount in total to some Euro 7.7 million.

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 31 December 2016 amounted to Euro 119.5 million in amounts due to customers (including approximately Euro 87.5 million in securities portfolios).

The above computation excludes transactions and balances with the parent company as per paragraphs I above.

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

Balances at 31.12.2016 **(in €/million)**	**Related parties pursuant to art. 53 CBA (including parties treated in accordance with Art. 136 CBA) and/or art. 2391- bis of the Civil Code** **(other than the parent company and subsidiaries/associates)**
<u>Lending transactions:</u>	
Amount granted-	9.8
Amount drawn down	7.7
<u>Funding transactions:</u>	
C/c and d/r amount (a)	32.0
Amount of securities portfolios (b)	87.5
Total (a+b)	119.5

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.

PART I - EQUITY-BASED PAYMENTS

With the substitute payment of an equivalent amount in the month of June to all beneficiaries of the 2011-2013 Stock Grant Plan, the Plan is to be considered to all effects concluded. There are therefore no equity-based payments.

PART L – SEGMENT REPORTING

The Banco Desio Group operates by carrying out traditional banking activities, providing asset management services and selling life and non-life bancassurance products.

Consistent with the system of internal reporting used by management to monitor the trend in results and take operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The "banking" segment comprises the two network banks in the Group, Banco di Desio e Della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A. (the comparative period also includes the securitisation operations arranged by BPS in 2003 via Spoleto Mortgages Srl, an SPV).

The "near-banking" segment comprises Fides S.p.A., a financial intermediary that is registered pursuant to art. 106 TUB.

The "asset management and other" segment comprises (in the comparative period) Credito Privato Commerciale S.A. in liquidation and two investments in the process of being sold: Rovere Societé de Gestione S.A. and Istifid S.p.A.

The "consolidation adjustments" column includes the consolidation entries and the intercompany eliminations, except for the Purchase Price Allocation entries attributed to the "banking" segment to which they relate.

The four columns described above is the amount reported in the consolidated financial statements of the Banco Desio Group.

Income statement	Banking	Near-banking	Asset mgt and other	Consolidation adjustments	Total 31.12.2016
Net profit from financial and insurance activities [1]	457,704	14,890		(12,547)	460,047
Fixed costs [2]	(345,440)	(5,677)		7,187	(343,930)
Provisions and adjustments [3]	(95,620)	(560)			(96,180)
Profit (loss) from equity investments carried at equity	13,379			(5,763)	7,616
Gains (losses) on disposal of investments					
Profit (loss) from current operations before tax	**30,023**	**8,653**		**(11,123)**	**27,553**

Balance sheet	Banking	Near-banking	Asset mgt and other	Consolidation adjustments	Total 31.12.2016
Financial assets	1,872,346	15		(1,553)	1,870,808
Due from banks	587,459	3,238		(477,859)	112,838
Loans to customers	9,679,616	562,021		(521,529)	9,720,108
Due to banks	1,435,925	521,674		(995,354)	962,245
Due to customers	8,729,165	3,047		(2,621)	8,729,591
Debt securities in issue	1,395,185			(1,301)	1,393,884

Indirect deposits, under administration and	**13,540,651**			**(66,522)**	**13,474,129**

Income statement	Banking	Near-banking	Asset mgt and other	Consolidation adjustments	Total 31.12.2015
Net profit from financial and insurance activities [1]	497,698	11,733	1,450	(6,059)	504,822
Fixed costs [2]	(319,361)	(5,103)	(3,870)	5,797	(322,537)
Provisions and adjustments [3]	(148,483)	(466)	278	(1,085)	(149,756)
Profit (loss) from equity investments carried at equity	7,857			2,907	10,764
Gains (losses) on disposal of investments	2				2
Profit (loss) from current operations before tax	**37,713**	**6,164**	**(2,142)**	**1,560**	**43,295**

Balance sheet	Banking	Near-banking	Asset mgt and other	Consolidation adjustments	Total 31.12.2015
Financial assets	1,901,923	15		(168)	1,901,770
Due from banks	542,767	2,667	52,779	(305,221)	292,992
Loans to customers	9,351,272	503,384	11	(468,356)	9,386,311
Due to banks	1,054,966	464,754		(767,495)	752,225
Due to customers	8,241,967	4,254	108	(2,219)	8,244,110
Debt securities in issue	1,918,104				1,918,104

Indirect deposits, under administration and management	**12,402,670**		**25,799**	**(118,367)**	**12,310,102**

Notes:
[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

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

Gruppo Banco Desio

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Tommaso Cartone, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

– the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their

– effective application during 2016.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2016 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1. the consolidated financial statements:

a. have been prepared 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;

b. agree with the books of account and accounting records;

c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

Desio, 09 February 2017

Chief Executive Officer	Financial Reporting Manager
Tommaso Cartone	Mauro Walter Colombo

Auditors' report

Deloitte.

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco di Desio e della Brianza Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banco di Desio e della Brianza Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Banco di Desio e della Brianza S.p.A., with the consolidated financial statements of Banco di Desio e della Brianza Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of Banco di Desio e della Brianza Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by

Maurizio Ferrero
Partner

Milan, Italy
March 6, 2017

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

Attachment to the consolidated financial statements

Gruppo Banco Desio

DISCLOSURE COUNTRY BY COUNTRY

(pursuant to the Bank of Italy's Circular 285 of 17 December 2013 "Supervisory Provisions for Banks" - 19th update of 2 November 2016)

The information relating to points a), b), c), d), e) and f) of Attachment A to the First Part, Title III, Chapter 2 of the Supervisory Instructions for banks is presented below.

Situation taken from the consolidated financial statements at 31 December 2016

Following the corporate events that have taken place in recent years and which were disclosed to the public each time by press releases or inclusion in the periodic financial reports, at 31 December 2016 the Banco Desio Group is now based solely in Italy, whereas in the past it was also present in Switzerland (via Credito Privato Commerciale S.A. in liquidation) and in Luxembourg (via Rovere Societé de Gestion S.A., which is being sold).

a) Name of company and nature of the activity

Banco di Desio e della Brianza S.p.A., with head office in Desio, via E. Rovagnati 1, is the Parent Company of the Banco Desio Group, register of Banking Groups no. 3440.

The Banco Desio Group consists of the Parent Company Banco di Desio e della Brianza S.p.A., Banca Popolare di Spoleto S.p.A., with head office in Spoleto, piazza Pianciani 5, and Fides S.p.A., with head office in Rome, via Ombrone 2/G.

In addition to traditional banking intermediation, Banco di Desio e della Brianza and Banca Popolare di Spoleto also offer asset management services, life and non-life bancassurance products, payment systems, factoring, leasing and consumer credit products, in part via Fides, a financial intermediary that is registered pursuant to art. 106 TUB, which makes loans to the employees of public and private companies.

Information/Geographical Area		**Italy**
b) Turnover [(1)]	Euro/thousand	411,104
c) Number of employees on full-time equivalent basis [(2)]	Number	2,004
d) Profit (loss) before taxes	Euro/thousand	27,553
e) Income taxes	Euro/thousand	(2,016)

Notes:
[(1)] The figure represents caption 120 "Net interest and other banking income" of the consolidated income statement
[(2)] the number of employees is determined by taking the total number of hours actually worked by all employees, excluding overtime, divided by the number of hours worked per week in accordance the full-time labour contract, multiplied by 52 weeks less 25 days - as established by convention - for the holiday period.

Separate financial statements

Directors and officers

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 Camagni (*)
Senior Deputy General Manager	Mauro Walter Colombo (**)
Deputy General Manager "Corporate Affairs"	Maurizio Ballabio (***)

* *from 4 May 2016*
** *from 27 April 2016*
*** from 18 July 2016

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

Report on Operations

Introduction

The figures and ratios included in this Report on Operations, as well as the comments on the composition of the captions and the changes relating thereto, where due, refer to the balance sheet included in the financial statements and to the reclassified income statement, which has been prepared from the financial statements.

The data reported in the income statement, the statement of comprehensive income and the cash flow statement for the year ended 31 December 2016 is not comparable with that reported for 2015. This is because the latter were influenced by the non-recurring transactions that took place with effect from 1 April 2015, on the contribution to Banca Popolare di Spoleto of the line of business comprising 32 branches in Tuscany and Lazio previously owned by Banco di Desio e della Brianza, and the simultaneous transfer to the latter of the Milan branch of Banca Popolare di Spoleto.

In order to compare the two years on a consistent basis and therefore better represent the summary data and indices, the comparative reclassified income statement has been restated as follows:

- the Q1 2015 amounts of the captions affected by the transfer of 32 branches from Banco Desio to Banca Popolare di Spoleto (total of Euro 2.4 million) were adjusted;
- the Q1 2015 amounts of the captions affected by the transfer of the Milan branch from Banca Popolare di Spoleto to Banco Desio (total of Euro 0.1 million) were adjusted.

In addition, the carrying amounts of the investments in Rovere Societé de Gestion S.A., a subsidiary, and in Istifid S.p.A., an associate, reported in the balance sheet at 31 December 2015, were reclassified from caption "100 – Equity investments" to caption "140 – Non-current assets and disposal groups held for sale" following the Board resolutions adopted during 2015 in relation to the disposal of these investments.

1 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Total assets	8,925,882	8,694,725	231,157	2.7%
Financial assets	1,492,482	1,536,565	-44,083	-2.9%
Due from banks	500,276	447,669	52,607	11.8%
Loans to customers	6,247,053	5,977,833	269,220	4.5%
Property, plant and equipment	135,219	137,571	-2,352	-1.7%
Intangible assets	3,238	3,572	-334	-9.4%
Non-current assets and disposal groups held for sale	0	1,403	-1,403	-100.0%
Due to banks	1,011,518	810,833	200,685	24.8%
Due to customers	5,622,898	5,155,059	467,839	9.1%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,226,467	1,648,515	-422,048	-25.6%
Shareholders' equity (including Net profit/loss for the period)	865,567	852,046	13,521	1.6%
Own Funds	1,037,658	1,051,610	-13,952	-1.3%
Total indirect deposits	11,661,761	10,465,556	1,196,205	11.4%
of which: Indirect deposits from ordinary customers	*6,648,082*	*6,590,780*	*57,303*	*0.9%*
of which: Indirect deposits from institutional customers	*5,013,679*	*3,874,776*	*1,138,902*	*29.4%*

Income statement [1]

Amounts in thousands of Euro	31.12.2016	31.12.2015	Change amount	Change %
Operating income	260,838	303,974	-43,136	-14.2%
of which: Net interest income	*134,617*	*156,048*	*-21,431*	*-13.7%*
Operating costs	174,006	173,499	507	0.3%
Result of operations	86,832	130,475	-43,643	-33.4%
Profit (loss) from operations after tax	33,281	32,200	1,081	3.4%
Non-recurring profit (loss) after tax	-1,602	2,920	-4,522	n.s.
Net profit for the year	31,679	35,120	-3,441	-9.8%

[1] *from the reclassified income statement*

Key figures and ratios

	31.12.2016	31.12.2015	Change amount
Capital/Total assets	9.7%	9.8%	-0.1%
Capital/Loans to customers	13.9%	14.3%	-0.4%
Capital/Due to customers	15.4%	16.5%	-1.1%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	70.6%	51.7%	18.9%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	16.3%	15.8%	0.5%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	16.4%	15.8%	0.6%
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.9%	20.0%	-0.1%
Financial assets/Total assets	16.7%	17.7%	-1.0%
Due from banks/Total assets	5.6%	5.1%	0.5%
Loans to customers/Total assets	70.0%	68.8%	1.2%
Loans to customers/Direct customer deposits	91.2%	87.9%	3.3%
Due to banks/Total assets	11.3%	9.3%	2.0%
Payables to customers/Total assets	63.0%	59.3%	3.7%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss/Total assets	13.7%	19.0%	-5.3%
Direct customer deposits/Total assets	76.7%	78.2%	-1.5%

	31.12.2016	31.12.2015	Change amount
Cost/Income ratio	66.7%	57.1%	9.6%
Net interest income/Operating income	51.6%	51.3%	0.3%
Result of operations/Operating income	33.3%	42.9%	-9.6%
Profit (loss) from operations after tax/Capital [(2)]	4.0%	3.9%	0.1%
ROE [(2)]	3.8%	4.6%	-0.8%
Profit (loss) from operations before tax/Total assets (ROA)	0.5%	0.5%	0.0%

	31.12.2016	31.12.2015	Change amount
Net doubtful loans/Loans to customers	4.1%	4.4%	-4.4%
Net non-performing loans/Loans to customers	7.2%	7.7%	-7.7%
% Coverage of doubtful loans	55.0%	55.9%	-55.9%
% Coverage of doubtful loans, gross of cancellations	63.3%	65.7%	-65.7%
% Total coverage of impaired loans	46.3%	47.2%	-47.2%
% Coverage of impaired loans, gross of cancellations	53.4%	55.8%	-55.8%
% Coverage of performing loans	0.48%	0.62%	-0.62%

Structure and productivity ratios

	31.12.2016	31.12.2015	Change amount	Change %
Number of employees	1,410	1,411	-1	-0.1%
Number of branches	149	149	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(3)]	4,429	4,047	382	9.4%
Direct deposits from customers per employee [(3)]	4,856	4,606	250	5.4%

	31.12.2016	31.12.2015	Change amount	Change %
Operating income per employee [(3)]	185	205	-20	-9.8%
Result of operations per employee [(3)]	62	88	-26	-29.5%

[(2)] *equity excluding net profit (loss) for the period;*

[(3)] based on the number of employees calculated as a straight average.

2 - Underlying scenario

2.1 - The macroeconomic scenario

International scenario

There were many fears about the strength of the economic recovery at the start of 2016, both globally and for the related effects on the European economies and on Italy, in particular. Given the steady easing of these fears and the confirmation of stronger growth, the outlook from the summer was dominated by the consequences of the political decisions - largely unexpected - made by British, American and Italian voters. Not forgetting those to be made next year by the Dutch, French and German voters, or the prospects for the current Italian legislature.

Against this background, the international economy continued to show signs of a slowdown in the second half of 2016. World trade is currently growing at an annual rate of about 1% (+2% at the end of 2015), while the rise in industrial production is gradually easing to 1.4% y/y (from +1.7% at the end of 2015).

With regard to the principal emerging countries, growth in China has stabilised at around 6.7% y/y while India continues to expand at an annual rate in excess of 7%; on the other hand, Brazil is faced with a severe and prolonged recession and Russia has recorded six quarters of economic contraction.

Turning to the advanced economies, growth in the United States lost the buoyancy experienced in 2015 due to a poor first quarter. Japan has still not found incisive solutions to its long-term problems, while the upturn in the Euro area is not quite as strong as it was that the end of last year.

After the stop experienced during the second quarter, Italian growth during the third quarter of 2016 matched the progress seen at the start of the year (+1% y/y) and is positioned above the medium-term trend line. This said, the OECD leading indicator still flags caution for short-term future of the Italian economy. While the growth path is modest, the gap between actual GDP and the potential rate is narrowing (from -4.1% at the end of 2013 to the current -1.8%) and confirms the economic recovery in progress.

United States

GDP grew more in the third quarter of 2016 than in the previous quarters (+3.1%, up from +1.4%). This recovery was largely due to private consumption and the contribution made by net exports; this latter performance was mostly attributable to temporary factors, such as the exception flow of agricultural products exported to South America. Specifically, consumption rose by 0.7% (formerly +1.1%), public spending increased 0.1% and exports climbed 2.4% (formerly +0.4%), while investment fell 0.2% (formerly -0.3%). The OECD's leading indicator suggests that prospects for the economy will remain uncertain over the next 6 months. Aside from the exceptional rise in exports, there are no significant signs of a strengthening in the non-housing investment cycle that would alter the prospects for growth: household consumption therefore remains the only solid pillar that steadfastly sustains economic growth, without however replicating the intensity seen in previous recoveries.

The jobs market continues to show signs of a strong upturn: the unemployment rate fell to 4.6% in November. Industrial production slowed in August, while continuing to grow (+1.1% y/y). Consumer prices rose by 1.6% in October (formerly +1.2% in June), which was 10 bps more than in the previous month. Inflation continues to climb towards the Fed target, now that the effect of lower energy prices has been lost.

On the other hand, core inflation (excluding non-processed foods and energy products) remains stable compared with earlier readings (2.2%). On the political front, the Republican victory in the recent presidential elections is expected to lead to a series of expansionary measures over the next four years. These initiatives will reflect fiscal policy for the relaunch of the country, with tax reforms for households and firms, an infrastructure spending plan, the regulation of foreign trade in order to facilitate the growth of US industry and the control of immigration in favour of local employment.

Japan

GDP during the third quarter continued the growth path identified previously, albeit at a slower rate (+0.3%, formerly +0.5%). Once again, the greatest contribution came from the construction sector (+2.6%), where strong expansion has continued to benefit from tax support for the rental market, while sales remain slack. Improvements in wages and employment have allowed consumption (+0.3%) to bolster domestic demand. Household confidence has been broadly stable since the start of the year, but industrial investment has weakened (-0.4%). The high level of productive capacity, the low level of utilisation and pessimism about future demand (with exports stalled on expectations of yen depreciation and uncertainties about the trade policies of the new US administration) continue to impact the growth in capital expenditure. Monetary policy remains ultra-expansive, in an attempt to achieve the 2% inflation target; even so, inflation was modest in October (+0.2%) and the government deferred the planned rise in the consumption tax (from April 2017 to October 2019), thus avoiding its impact on growth at the expense of stressing the public-sector accounts.

Emerging Economies

GDP in Russia improved slightly during the third quarter, but remains in negative territory (-0.4%, formerly -0.5%). The country is still in the grips of a recession; the fall in real wages since the start of the year (-5%) continued in October, as did the decline in retail sales (-4.4%). Industrial production fluctuates between expansion and contraction (-0.3% in October). Looking in more detail, the mining industries continue to grow while manufacturing struggles. Financial conditions and demand levels do not signal an upturn in investment, which continued to decline during the third quarter (-2.3%). The restructuring of the banking and financial sector has generated a modest increase in lending, but a deterioration in its quality due to the difficulties faced by households and firms. After the stagnation seen on 2016, capital flows will depend on relations with the new US administration and the related effects on the exchange rate for the rouble, the cost of borrowing in foreign currencies and foreign trade (sanctions included).

GDP in China was stable in September (+6.7%). Analysis of this growth shows a reduction in the impact of lower net real exports (-0.3%), which offset a slight decrease in the growth of consumption. Investment was stable overall, although with mixed situations: in particular, industrial investment slowed, while investment in services increased. Public spending represented the lion's share once again, with double-digit growth (+20%), while private investment was limited (+2%). Monetary policy remains focused on targeted measures to ensure that the country's economic system has adequate liquidity; the downward pressure on the yuan was not repeated during the year (except at the time of the "Brexit" vote), inflation remains well under control (2%) thanks to fiscal policy that is ready to support domestic demand with government spending.

GDP growth in India remains robust (+7.1%), sustained as ever by private consumption (+7.6%). This expansion was supported by the beneficial effects of the monsoon season, both in terms of prices and the availability of agricultural products. The contribution made by foreign trade is unchanged, on the other hand, with the slowdown in export growth - now barely positive - offset by a drop in imports (-9%). Unfortunately, capital investment continued to be weak (-5.9%) due to excess installed production capacity and the difficulty in finding local funding. In fact, monetary policy had to deal with the poor condition of the Indian banking system (with non-performing loans rising and banks having to recapitalise through the public sector and the market); as a result of which access to credit by businesses was shifted to foreign operators, at the expense of unstructured local businesses. After implementing various expansionary measures, the central bank has taken a more careful position for two main reasons: firstly, inflation has exceeded the target rate (4%) and, secondly, the uncertainties about US economic and monetary policies, which will affect the sources and cost of funding for all emerging countries, via changes in exchange rates and the expected flow of investment.

GDP in Brazil fell even further during the third quarter (-0.8%), due to the weakness of internal demand and net exports. After timid signs of a recovery in the second quarter, capital investment also moved back into negative territory (-3.5%). The country is struggling to regain the confidence necessary to pull out from the deepest crisis experienced since the 1990s. The difficulties are linked to the high exposure of private firms to the international markets for loans, as well as to the political uncertainties that slow implementation of the policies needed to stabilise the finances of the public sector. This fragility emerged again after the US presidential elections. After strengthening for 10 months, the Real depreciated in November (-2.9%). Despite these issues, inflation has continued to fall (8.5% in October, from 11.3% at the end of 2015) and the unemployment rate is broadly stable (11.8%).

Europe

The GDP of the Eurozone grew faster in the third quarter than in the second (+1.4%, formerly +1.2%) due to positive contributions from France (+1.0%) and Germany (+0.8%). Overall, all components of GDP contributed positively to this annualised growth; in particular, the largest contribution came from retail sales (+2.5%), followed by manufacturing orders (+1.9%) and industrial production (+0.6%). The economic recovery of the Eurozone remained steady during the third quarter, although the various member countries performed differently. Among the larger countries, growth accelerated in Italy and France (where the recovery had been hindered in previous quarters by such temporary factors as the strikes against the reform of the jobs market); by contrast, slowdowns were experienced in Germany and Spain (this last country remain, in any case, one of the most dynamic economies in the area, despite the political stalemate there for most of the year).

The business confidence index fell in November, while the consumer confidence index improved while still expressing pessimism. With regard to the jobs market, the unemployment rate fell in October (9.8%, formerly 10.1%). Inflation continues at extremely low levels: consumer prices rose by +0.5% (formerly +0.2%) in October, while core inflation was 0.8% (essentially unchanged).

Italy

As already mentioned in relation to the Eurozone, GDP recorded a discrete annual growth (+1.0%, formerly + 0.8%). All components of GDP provided positive contributions to overall growth, with the exception of net exports. Consumption provided the main support for the improvement in economic activity, thanks to the contribution made by households (+0.9%), together with gross fixed capital formation (+0.4%). Net foreign demand, however, made a negative contribution (-0.2%) due to the slowdown in the economies of the emerging countries.

The October seasonally adjusted index of industrial production was higher (+1.1% y/y) and the calendar-adjusted indices reflected increases in almost all groupings: energy (+6.1%), operating assets (+2.1%) and intermediate goods (+0.3%), while consumer goods were essentially unchanged. New orders were up in September (+2.6% y/y), while retail sales were broadly flat. The consumer confidence index was slightly lower in November, while the business confidence index was higher. With regard to the jobs market in

October, the unemployment rate was slightly worse (11.6%, formerly 11.4%), but that of young people declined (36.4%, formerly 39.2%). The harmonised index of consumer prices remains particularly low (-0.2% in October, formerly -0.1%), in line with core inflation (+0.3%, formerly 0.5%). Developments during the fourth quarter of 2016 suggest a further improvement in economic activity. This trend means that 2016 should close with faster GDP growth (+0.9%) than in 2015 (+0.7%).

2.2 - Capital markets and the banking system in Italy

Financial and monetary markets

June saw the start of the TLTRO II programme (4 auctions) with a duration of 4 years and a negative rate equal to the deposit rate (-0.40%). The ECB kept the policy rates unchanged in December (reference rate of zero, -0.40% on deposits). The expanded and extended bond purchase plan will continue, if necessary, beyond the deadline (March 2017) and, in any case, until there is a sustained rise in inflation close to its declared target (+2%). By contrast, following the rate rise at the end of 2015 (in a range between 0.25% and 0.50%), the Fed announced a further rise of 0.25 points: the new range is therefore between 0.50% and 0.75%. Over the coming year, the US central bank expects to make further increases, to arrive at 1.40% within twelve months.

In the first ten days of December, 3-month Euribor is still in negative territory (-0.31%); by contrast, the 10-year IRS rate is 0.75%, down 19 bps since December (0.94%), but up with respect to the other readings during 2016.

In the bond markets, the 10-year benchmark rates recovered in the USA (2.15%, from 1.76% in September) and in the Eurozone; specifically, the German benchmark rate was 0.16% (from -0.03% in September), while the Italian rate was 1.94% (from 1.46% in September). The spread between the ten-year yields on Italian and German government bonds was affected by the market volatility caused by the Italian constitutional referendum, touching 198 bps (formerly 150 bps in September), before declining to around 160 by year end.

International share prices fluctuated on a monthly and year-on-year basis in November. The Dow Jones Euro Stoxx index fell by -1.1% m/m (-4.8% y/y), the Standard & Poor's 500 index rose by +3.1% (+8.7% y/y) and the Nikkei 225 index climbed by +6.1% (-2.2% y/y). The major European stock market indices improved during the month; the FTSE Mib index rose by +8.3% (-16.5% y/y); in France, the Cac40 index grew by +3.9% (+0.4% y/y) and, in Germany, the Dax30 index increased by +2.4% (+2.6% y/y).

With reference to the main banking indices, the indicators substantially maintained the monthly and annual trends of the principal stock market indices; the Italian FTSE Banks rose by +10.0% m/m (-41.7% y/y), the Dow Jones Euro Stoxx Banks by +8.1% m/m (-12.7% y/y) and the S&P 500 Banks rose by +11.5% m/m (-18.9% y/y).

Banking markets

In November, the annual trend in deposits from resident customers worsened compared with that reported at the end of 2015 (-0.8%, formerly -0.6%). As reported previously, the annual trend in deposits continues to be positive (+4.4%), whereas bonds reflect strong contraction (-18%). A review of the different components shows clear differentiation between the short-term and medium/long-term sources. Deposits from resident customers (net of central counterparties) grew at 4.4% p.a. in November, while bonds continued the major contraction experienced since 2014; deposits from abroad inverted the growth trend reported in previous quarters (-5.0%, +3.1% at the end of 2015). The average remuneration of bank deposits was 1.00%, having decreased further since the end of 2015 (1.19%). The interest rate on the euro deposits of households and non-financial companies was 0.41% (0.53% at the end of 2015), the rate on bonds was 2.75% (formerly 2.94%) and the rate on repurchase agreements was 1.16% (0.91% at the end of 2015).

In November, the annualised rate of bank lending to households and non-financial companies (recalculated to include securitised/assigned loans not reported in bank balance sheets) inverted the trend reported at the end of 2015 (+0.7%, formerly -0.4%). In October, loans to households grew by +1.6% y/y (+0.8% at the end of 2015), as did those to companies (+0.5%, formerly -0.2%).

Overall, lending during the third quarter of 2016 was again influenced by the trend in capital investment (+3.1%) and by the performance of economic cycle; in November, gross non-performing loans rose m/m to 11.9% of total lending (formerly 10.4% at the end of 2015). The ratio of net non-performing loans/total net loans was 4.8% (4.9% at the end of 2015). The latest-available Cerved data (June 2016) reports a decline in business bankruptcies (-2.8% y/y), almost returning to the levels seen in 2013.

Interest rates on new loans have remained low; the rate on home purchase loans to households was 2.06% (2.51% at the end of 2015). In May, fixed-rate loans accounted for 74.4% of the total (formerly 66.0% at the end of 2015). The rate on new loans to non-financial companies fell to 1.67% (from 1.99% at the end of 2015). Overall, the weighted-average rate on total loans to households and non-financial companies was 2.90% in November (formerly 3.26% at the end of 2015) and, again in November, the spread between the average lending and funding rates was 1.90%, down further compared with previous reports (formerly 2.07% at the end of 2015) and even further from the pre-crisis spread (3.29% at the end of 2007).

3 – Regional market presence and corporate issues

3.1 - The distribution network

The distribution network of the Bank comprises 149 branches at 31 December 2016, unchanged since the end of the prior year. As part of work to rationalise and improve the efficiency of the distribution network, on 22 December 2016, the Bank approved the closure of four branches in Milano-Mauri, Brembate, Cinisello Lincoln and Desio Volta, by 31 March 2017.

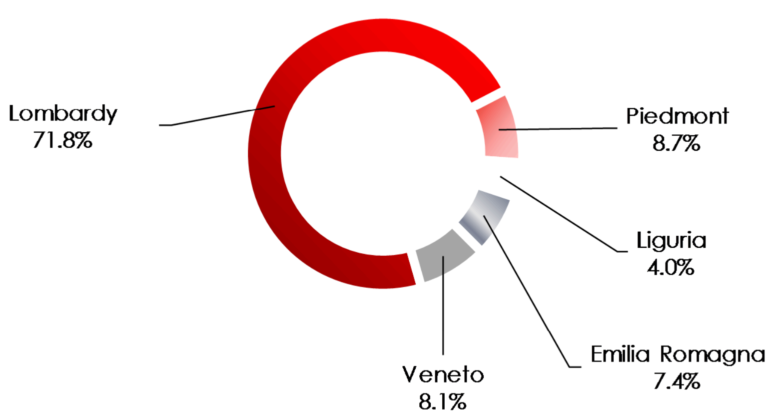
In recent years, the distribution network, which gives top priority to customer relationships, underwent expansion into adjacent and complementary areas. This was aimed at markets where the Bank has its roots, as well as other local opportunities.

From 1 February 2017, the distribution network of the Company comprises eight territorial areas (seven previously), each supervised by an Area Manager and supported by the following roles:

- *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 Corporate Affairs and as communicated by the Sales Department for an effective organisation of each sales campaign;

The following chart shows the breakdown of the Company's distribution network by region at the end of 2016.

Chart no. 1 - **BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK BY REGION**



3.2 - Significant events

General Management

On 27 April 2016, the Board of Directors of the Company approved the hiring of Luciano Camagni and his appointment as General Manager with effect from 4 May 2016.

Luciano Camagni replaced Luciano Colombini, to whom the Board of Directors wishes to express heartfelt thanks for the work he has performed and the results achieved despite a particularly severe market environment.

The professional profile of Luciano Camagni is characterised by extensive experience in banking and finance gained in senior positions at leading institutions.

The Board also appointed a second Deputy General Manager, Mauro Walter Colombo, who holds the position of Financial Reporting Manager as well.

Lastly, on 18 July 2016, Maurizio Ballabio, formerly Deputy General Manager of Corporate Affairs at Banca Popolare di Spoleto, was appointed to the same position at the Bank. At the same time, Ippolito Fabris was appointed Deputy General Manager of Corporate Affairs at Banca Popolare di Spoleto, having previously held the same position at the Bank.

Credito Privato Commerciale S.A. in liquidation ("CPC")

After the events that took place on 31 December 2015, with the substantial completion of the liquidation of CPC, from 1 January 2016, the Bank treated the investment in CPC as completely eliminated following loss of control, even though the capital and reserves would be distributed at a later date.

The Bank (1) eliminated the book value of the subsidiary from caption "100 – Equity investments", at the same time recognised both a receivable from the liquidators which was considered certain and recoverable, under caption "150 – Other assets" and (2) a Profit from equity investments of Euro 4,169 thousand, equal to the difference between the receivable from the liquidators and the value of the equity investment eliminated, net of the estimated future charges for the cancellation of the company.

On 29 June 2016, the Swiss Supervisory Authority (FINMA) issued the measure that released the company from banking supervision and, on 4 August 2016, the Extraordinary Shareholders' Meeting of CPC authorised certain amendments to its Articles of Association to remove, among other matters, all clauses regarding membership of the Banco Desio Group. On 17 August 2016, the company was deleted from the Bank of Italy's list of members of Banking Groups.

Following the measure issued by FINMA, CPC was also put in a position to distribute most of its equity capital; after the amendments of the Articles of Association, the liquidators arranged to distribute to the Bank reserves totalling Euro 38.4 million, so that the shareholders' equity of CPC now amounts to Euro 11.6 million, mostly represented by share capital.

The residual liquidation activities continued for the sole purpose of achieving the company's cancellation from the commercial register in the shortest time possible.

Rovere Societé de Gestion S.A. in liquidation ("Rovere")

The absorption of Rovere Sicav's nine sub-funds by the same number of Italian-based funds managed by AcomeA SGR S.p.A. was completed on 29 January 2016. Following the above merger, Rovere ceased operations and the procedure for its disposal and liquidation in the shortest time possible was initiated.

Given that no opportunities arose to sell the equity investment, on 6 June 2016 Rovere's Shareholders' Meeting decided that it should be liquidated. Accordingly, on 29 June 2016, the Luxembourg Supervisory Authority (CSSF - Commission de Surveillance du Secteur Financier) issued the measure to remove (strike off) the company from the official list of authorised fund managers.

On 26 September 2016, the Extraordinary Shareholders' Meeting of Rovere authorised a number of amendments to its Articles of Association, including deletion of all the clauses referring to its membership of the Banco Desio Group. With effect from 11 October 2016, the company was deleted from the Bank of Italy's list of members of Banking Groups.

Because of these events, the Bank considered its investment in Rovere to have been definitively eliminated due to loss of control; the Bank therefore took steps to derecognise the investment, at the same time recording in caption "150 - Other assets" a receivable from the liquidator of the amount considered certain and recoverable, net of estimated charges for the company's cancellation from the commercial register.

In December 2016, the Liquidator essentially confirmed the liquidation plan for the company that was defined back in July; the liquidation activities continue for the sole purpose of achieving the company's cancellation from the commercial register in the shortest time possible.

Istifid S.p.A.

On 11 January 2016, given the evolutions in the sector where Istifid S.p.A. operates, characterised by increasing concentration, the Board of Directors of the Bank agreed to continue negotiations to sell its investment in this product company. On 13 April 2016, Banco Desio, Credito Valtellinese S.C. and Canova Investissements S.r.l. signed a preliminary agreement for the sale of their entire investment in Istifid S.p.A. to Unione Fiduciaria S.p.A., which was completed on 2 May 2016. Following the completion of the price adjustment procedure on 27 July 2016, this operation resulted in the recognition of a disposal gain of Euro 1.1 million in the financial statements.

Part of the disposal proceeds, Euro 0.48 million, has been reinvested in the shares of Unione Fiduciaria S.p.A. (percentage ownership: 1.394%).

Chiara Assicurazioni S.p.A.

On 23 December 2016, new commercial partnership agreements were signed with the Helvetia insurance group in relation to the "non-life" business. Under these agreements, Helvetia Compagnia Svizzera di Assicurazioni S.A. acquired the residual equity interests (about 47% in total) held by Banco Desio and the other partner banks in Chiara Assicurazioni S.p.A., a "non-life" insurer, in order to obtain 100% of its share capital. The sale of this residual interest (32.66%) for Euro 15.1 million resulted in the recognition of a disposal gain of Euro 7.6 million in the financial statements. As part of these agreements, a price adjustment of Euro 0.4 million was also determined in relation to the earlier disposal of 34% of Chiara Assicurazioni S.p.A. on 24 April 2013, which was also recognised as income from the disposal of equity investments. Among other elements, the agreements extend for an additional 10 years the commercial partnership for the distribution of "non-life" products (without exclusivity).

General inspection of the Banco Desio Group by the Bank of Italy

A general inspection of the Banco Desio Group began on 14 September 2015 and was completed on 24 December 2015. The inspection report containing "partially favourable" findings was delivered to the Board of Directors of the Bank on 10 March 2016. This outcome, which is considered positive, did not result in any disciplinary proceedings.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Consistent with IFRIC 21, the Bank made the following entries when the "obligating event" occurred:

- standard contribution to the SRM of about Euro 2.9 million gross. The contribution was paid in June;
- standard contribution to the DGS of about Euro 2.1 million gross. The contribution was paid in December.

On 28 December 2016, the Bank of Italy notified the Bank that the SRM needed additional financial resources and, accordingly, called the two additional annual contributions envisaged for 2016 by Law 208/2015 (the "additional contributions"), reserving the right to review this decision and to determine the basis and timing for payment of the contributions, as envisaged in Decree 237/2016, which has not yet been converted into law.

As indicated in the Bank of Italy communication dated 25 January 2017 regarding these additional contributions, the notification satisfies the condition required by IFRIC 21 for recognising the existence of an obligating event and, therefore, the liability to pay the levy. Accordingly, income statement caption 150.b "Other administrative costs" was charged with Euro 5.7 million, consistent with the accounting treatment of the contributions to the SRM indicated in the Bank of Italy communicated dated 19 January 2016.

"Voluntary scheme ("SVI") of the Interbank Deposit Protection Fund (FITD)

In November 2015, a Voluntary Scheme was established as part of the Interbank Deposit Protection Fund in order to support banks that are insolvent or at risk of insolvency.

On 28 April 2016, the FITD Voluntary Scheme provided support for Banca Tercas amounting to the contribution returned by that bank to the FITD. For the Bank, this led to the return of the contribution previously paid for Euro 1,571 thousand (recorded as income in Caption 130d) Net impairment adjustments to other financial transactions) and the simultaneous payment of a contribution to the Voluntary Scheme for Euro 1,576 thousand (recorded under caption 150b) Other administrative costs).

After the support for Banca Tercas, the General Meeting of the FITD Voluntary Intervention Scheme held on 17 June 2016 resolved to increase the financial framework for future support to Euro 700 million (additional to that already provided to Banca Tercas). On 16 September 2016 the Voluntary Scheme asked the member banks for a total contribution of Euro 281 million, with a view to subscribing for CaRiCesena's reserved increase in capital of Euro 280 million (plus Euro 1.0 million for operating expenses).

Having regard for the specific objectives of the Voluntary Scheme and in view of the communication from the Bank of Italy indicating the appropriate accounting treatment, the contribution of Euro 1.3 million paid by the Bank towards the above capital increase was recognised as an equity instrument among the AFS assets and measured at the reporting date with reference to the new fair value indicated by the Voluntary Scheme on 20 January 2017.

Considering the financial resources that may be called by the Voluntary Scheme for future support, a commitment has been recorded amounting to Euro 2 million.

Fondo Atlante

On 27 April 2016, the Bank's Board of Directors authorised a Euro 7 million investment in "Fondo Atlante", of which Euro 4.2 million was already paid at 31 December 2016. This is a closed-end AIF ("on call"), reserved for institutional investors, which aims to make a "system" intervention in the Italian market as an investment portfolio, targeting:

- Italian banks with increases in capital already announced to the market (Banca Popolare di Vicenza and Veneto Banca) and other Italian banks with recapitalisations aimed at ensuring compliance with the conditions established or requested by the supervisory authorities;
- financial instruments issued by one or more entities set up for the purchase of non-performing loans (NPLs) of a number of Italian banks;
- individual investments made in a perspective of economic and financial sustainability of each individual transaction and overall profitability of the portfolio over the medium to long term.

In a letter dated 19 December 2016, the Fund called-up an additional Euro 1.5 million that was paid on 3 January 2017, raising the total investment by the Bank to Euro 5.8 million; both the investment recognised in the AFS portfolio and the commitment to pay the above amount were measured with reference to the information provided by the Fund manager on 31 January 2017 and considering the available information about the prospects of the principal equity investments held by the Fund, by applying "look through" measurement logics. As a consequence, an impairment of Euro 2.1 million was recognised, gross of tax effect.

Participation in "TLTRO II"

In June, the Group took part in the first "TLTRO II" operation, with which the ECB offered long-term liquidity to banks (with a duration of 4 years) to facilitate access to credit from the private sector and stimulate loans to the real economy. The amount allocated to the Bank was Euro 800 million, with simultaneous repayment of the "TLTRO I" loan of Euro 550 million.

Adherence to the A.BA.CO. procedure

An important event during the year was the Bank's adherence to the A.BA.CO. procedure (collateralised bank assets) prepared by the Bank of Italy for the management of "eligible" loans with the European Central Bank, i.e. those that are suitable for collateralised funding by the ECB. Following completion of the authorisation process, the facility made available to the Parent Company by the ECB for collateralised loans amounts to Euro 868.4 million at 31 December 2016, of which Euro 800 million has been used to participate in the TLTRO II programme.

This has improved the consolidated liquidity position of the Parent Company, with an LCR (Liquidity Coverage Ratio) that exceeds the regulatory requirement from 1 January 2018.

Agreement with the Trade Unions on access to the "Income support solidarity fund"

On 29 November 2016, the Banco Desio Group signed an agreement with the Trade Unions on access to the "Income support solidarity fund" (the "Fund") and on the departure of personnel who reach pensionable age. The agreement includes voluntary access to the Fund for persons who will earn the right to retire by 30 June 2022; the departure of the above persons will be spread between two windows, one on 1 October 2017 and the other on 1 October 2018. Additional measures have been identified to facilitate the departure of employees who earn the right to retire by 31 December 2018. With specific reference to Banco Desio, applications have been accepted from 97 persons; the one-time charge to the payroll costs is Euro 16.7 million.

Sale of the non-performing loan (NPL) portfolios

On 23 December 2016, a contract was signed for the sale of unsecured non-performing loan portfolios to Creditech S.p.A.

This disposal was then completed, together with the related accounting effects, in relation to a portfolio with a nominal value of about Euro 97.1 million that was sold for Euro 5.5 million. This disposal, which identified further losses of Euro 2.9 million with respect to the estimates made at the end of the prior year, also resulted in the recognition of additional income of about Euro 4.4 million with respect to the carrying amounts of the loans sold. In net terms, an accounting profits of Euro 1.5 million was therefore recognised before tax effect.

Consistent with the guidelines issued by the ECB, Banco Desio implemented a proactive NPL strategy for this transaction and other transactions carried out by Banca Popolare di Spoleto. The strategy was designed, in part, to improve the efficiency of the collection process and the ratio of impaired loans to total loans to customers, which is already quite low. Further sales are scheduled during 2017, adopting the same pro-active strategy for the management of non-performing loans.

Supervisory Review and Evaluation Process (SREP) 2016

On 9 January 2017, the Bank of Italy notified the Bank about the start of procedures for imposing additional capital requirements at consolidated level following completion of the Supervisory Review and Evaluation Process (SREP) 2016, with application from the report on own funds subsequent to the issue date of the measure (within 90 days of the start of the procedures).

Accordingly, the Group will be required to apply the following:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;
- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.7% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

It is also necessary to consider the Bank of Italy review of the capital conservation buffer, currently 2.5%, that will be included in the transitional instructions contained in the CRD IV from 2017, being:

- 1.250% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.500% from 1 January 2019 onwards (fully loaded regime).

The following table compares the consolidated capital requirements at 31 December 2016 with the minimum requirements at that date and the minimum consolidated requirements to be met in 2017 as a result of the events described.

	Recorded at 31.12.2016	Required up to 31.12.2016	Required on SREP completion
CET 1	10.9 %	7.0%	6.0%
TIER 1	11.0 %	8.5%	7.6%
TOTAL CAPITAL RATIO	13.5 %	10.5%	9.7%

The method for determining the individual supervisory capital of the Bank at 31 December 2016 is explained below in section "*7.4 - Shareholders' equity and capital adequacy*".

4 - Legislative Decree 231/2001

With reference to measures implemented concerning the administrative liability of companies for offences committed by their officers and/or employees, in 2004 the Board of Directors of the Bank approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Legislative Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree 231/2001 (the role of which has been performed since 2012 by the Board of Statutory Auditors) is provided in the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

Model 231, together with the Code of Ethics, has been published on the Group's website.

5 - Human resources

5.1 - Management and breakdown of resources

The past year was marked by the reorganisation of the commercial network, with the introduction of "Corporate Managers and Loan Officers" to each Territorial Area from 18 April 2016, with a view to improving supervision of the "business segment". These professional profiles, belonging to the new "Corporate Banking" sector, were identified from among the employees in each Area, while ensuring the continuity of normal branch operations by transfers and the appointment of new branch managers.

At the same time, work began on the "Skills mapping project" with an initial focus on personnel with branch organisation roles, that will continue in 2017 with reference to the personnel at central offices.

Towards the end of the year, following the above-mentioned agreement reached on 29 November 2016 between BDB, BPS, FIDES and the Trade Unions, a plan was activated for voluntary access to the "Solidarity Fund" by a total of 97 persons of the Bank (including 10 who will retire directly by 31 December 2018), spread between the two "windows" identified on 1 October 2017 and 1 October 2018.

At 31 December 2016, the Bank had 1,410 employees, a decrease of 1 (-0.1%) since the end of the prior year.

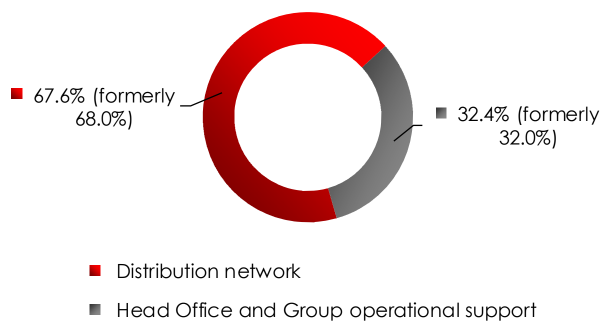
The following table provides a breakdown of employees by level at the end of 2016, compared with the previous year.

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

No. of Employees	31.12.2016	%	31.12.2015	%	Change Amount	%
Managers	26	1.8%	24	1.7%	2	8.3%
3rd and 4th level middle managers	342	24.3%	338	24.0%	4	1.2%
1st and 2nd level middle managers	416	29.5%	411	29.1%	5	1.2%
Other personnel	626	44.4%	638	45.2%	-12	-1.9%
Employees	**1,410**	**100.0%**	**1,411**	**100.0%**	**-1**	**-0.1%**

The following chart provides a breakdown of the workforce at the year end between Head Office and support.

Chart no. 2 - **BREAKDOWN OF EMPLOYEES BY AREA**



5.2 - Training

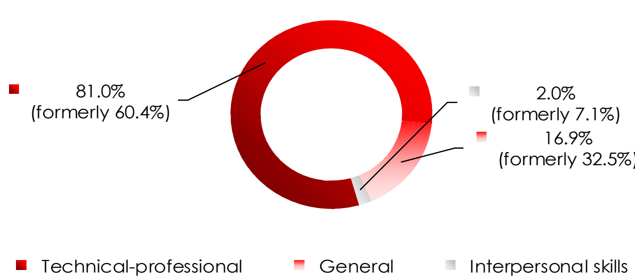
The growth and development of personnel is supported by training, consistent with the directives and procedures envisaged at Group level.

A total of 8,719 mandays of training were delivered during the year, considering internal courses, conferences, external seminars and on-line training, which represents an average of 6.2 training days for each employee.

The programme comprises "General" training courses for all professional families, with a view to developing cross-functional knowledge (including the training required by law), and "Technical-professional" that comprises courses aimed at developing the technical skills of persons required to perform specific duties, or who are interested in consolidating and further improving the skills required by their roles. Last but not least, the programme addresses "Interpersonal skills" in order to develop behavioural skills, facilitate the dissemination of Group culture and internalise Group values.

The following chart shows the breakdown in percentage terms of training days that were held in 2016 in the three areas mentioned above.

Chart no. 3 - **BREAKDOWN OF TRAINING DAYS IN 2016 BY TYPE OF TRAINING OFFERED**



The main "General" training initiatives included the following activities intended to keep personnel constantly updated about regulatory requirements:

- MODEL 231: following the identification of new crimes, specific training was held in order to update the special sections of the Model 231;
- Anti-Money Laundering: classroom training was provided as part of the continuing professional education of branch personnel, while on-line training was made available to network and central staff;
- Transparency: on-line training was provided in order to update personnel;
- Training on Safety at Work: this is provided to all staff, managers and fire-prevention and first-aid personnel.

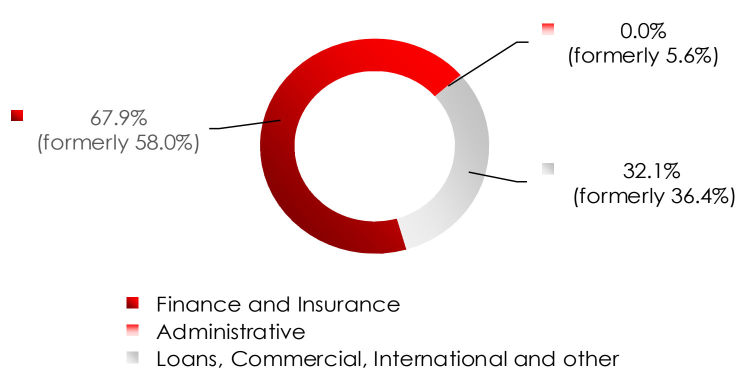
The "Technical-professional" training included:

- with regard to Loans, training was provided on performance of the comprehensive assessment, with work to develop the skills needed for the asset quality review process. At the same time, classroom courses were held for loan officers on the use of models for the assessment and analysis of historical and forecast data, with a particular focus on developing the skills of the Corporate Managers;
- with regard to International activities, updates were provided to branch and other personnel in view of the constant regulatory changes in this area, several of which are important in terms of operational and reputational risk;
- in the Finance area, training for the AIPB certification of Private Bankers was completed and further training was delivered on business planning and behavioural matters.

The professional updates required by IVASS on the sale of insurance products were also provided, with completion of the 60 hour, two-year training plan.

The following table graphically represents the percentage breakdown of the meetings held during the period based on the classification of the topics covered in the "Technical-professional" training.

Chart no. 4 - **BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2016 BY TOPIC**



The training on "Interpersonal skills" also continued the work carried out in the prior year to prepare branch personnel for their local business promotion activities, and strengthen the relationship of trust that ties customers to the Bank.

In compliance with the regulations specified in Bank of Italy Circular 285, the training commenced in the prior year for personnel responsible for implementing controls was completed, with a view to ensuring the development of cross-functional skills and acquire an integrated overview of the control activities to be performed.

A programme for the development of English skills was also carried out during the year for executives and certain personnel at the headquarters.

The attention paid by the Banco Desio Group to the growth and development of professional skills was acknowledged once again in 2016 by Fondo Banche Assicurazioni (FBA) and Fondir, which provided funding for training activities during the year.

5.3 - Industrial relations

Negotiations began with the trade unions during the first half of 2016 in order to redefine the Group's in-house employment contract.

It was agreed appropriate to promote a model of industrial relations founded on respect for the reciprocal roles of the Group and the trade unions and consequent reciprocal responsibilities, in line with the sector-level agreements already reached including, in particular, the "Agreements on union action" signed by A.B.I. and the competent trade unions on 7 July 2010, 24 October 2011 and 25 November 2015.

The negotiations were limited to matters linked to the national employment contract, pursuant to art. 28 of the National Contract dated 19 January 2012, as renewed by the Agreement dated 31 March 2015.

Following numerous meetings on one of the matters (bonus payment), a Group Framework Agreement was signed on 13 June 2016 that specified how to allocate the bonus earned in 2015 and paid in 2016. This Agreement made it possible to activate the tax relief envisaged in the Ministerial Decree dated 25 March 2016 and, as in the prior year, envisaged access to integrated welfare plans.

As mentioned, negotiations were held during the second half of the year on the Income support solidarity fund, which was signed with the trade unions at Group level on 29 November 2016. Parallel negotiations were also held with the trade unions in relation to the healthcare policy and employee loans, resulting in signature of the related agreements, again at Group level, on the same date.

6 - Control activities

6.1 - The levels of control in the management control and coordination function

In exercising its management control and coordination function, the Bank, in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent internal functions for the specific control mechanisms.

The first level, of a strategic nature, is aimed at constantly verifying the guidelines provided by the Parent Company and is put into effect mainly by means of the presence on the Boards of Directors of each subsidiary of a certain number of its own officers.

The second level is of a management type and regards the performance of analysis and the systematisation and measurement of periodic information flows from the subsidiaries, in order to verify the pursuit of strategic objectives in compliance with regulatory provisions, the preparation of adequate reporting on trends and earnings, the analysis of development, research or investment projects and of strategic opportunities, forecast cash flows and the other information needed for the preparation of the Group budget.

The third level is defined as technical-operational and mainly consists of monitoring the internal control system.

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.2 - The internal control system

The internal control system consists of a set of principles of conduct, rules and organisational procedures, which - in compliance with the law, Supervisory Authorities' regulations and corporate strategies - enables proper management of all of the Group's activities, with the involvement of corporate bodies and senior management and, generally, all the personnel.

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.3 - Risk measurement and management

As regards the specific activities performed by the Bank's Risk Management Department, with the objective of ensuring the controls over the management of various types of risk by means of the adoption of integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and related hedging policy.

7 - Results of operations

7.1 - Savings deposits: customer funds under management

Customer funds under management amounted to Euro 18.5 billion at year end, up over the year by about Euro 1.2 million (+7.2%), due to the increase in indirect deposits (+11.4%) and, to a lesser extent, in direct deposits (+0.7%).

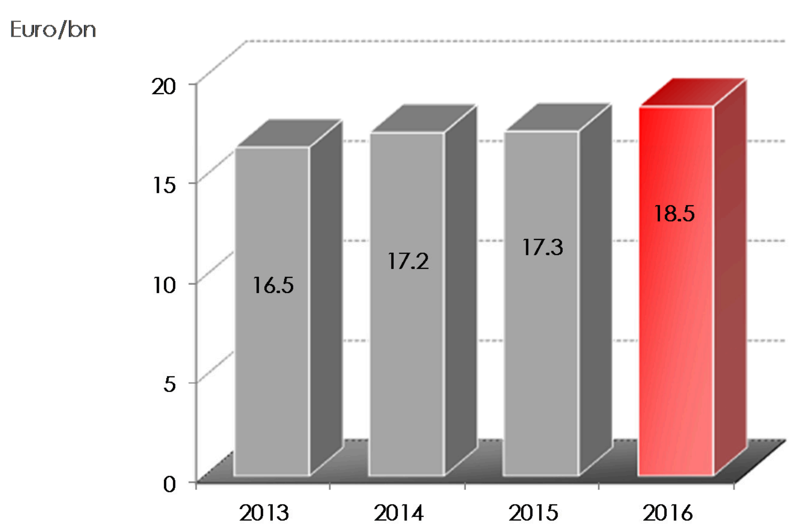
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	Change %
Due to customers	5,622,898	30.4%	5,155,059	29.9%	467,839	9.1%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,226,467	6.6%	1,648,515	9.5%	-422,048	-25.6%
Direct deposits	**6,849,365**	**37.0%**	**6,803,574**	**39.4%**	**45,791**	**0.7%**
Ordinary customer deposits	6,648,082	35.9%	6,590,780	38.2%	57,303	0.9%
Institutional customer deposits	5,013,679	27.1%	3,874,776	22.4%	1,138,902	29.4%
Indirect deposits	**11,661,761**	**63.0%**	**10,465,556**	**60.6%**	**1,196,205**	**11.4%**
Total customer deposits	**18,511,126**	**100.0%**	**17,269,130**	**100.0%**	**1,241,996**	**7.2%**

The trend in total deposits in the last three years is shown in the following graph, which shows an average annual growth rate of 4%.

Chart no. 5 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



Direct deposits

The balance of direct deposits at the end of 2016 came to Euro 6.8 billion, an increase of 0.7% compared to the previous year, posting an increase in due to customers (+9.1%) offset by the decrease in debt securities in issue and financial liabilities designated at fair value through profit and loss (-25.6%).

Due to customers of Euro 5.6 billion represents the most significant component as it makes up 82.1% of the total balance, of which some Euro 4.8 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.8 billion relates to restricted deposits and the remainder relates to other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed of about Euro 1.2 billion (including about Euro 0.3 billion of subordinated bonds) and certificates of deposits for the remaining amount.

Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year Euro 303 million (of which Euro 13 million subordinated securities);
- between 1 and 3 years Euro 653 million (of which Euro 113 million subordinated securities);
- between 3 and 5 years Euro 166 million (of which Euro 50 million subordinated securities);
- beyond 5 years Euro 83 million (of which Euro 79 million subordinated securities).

Indirect deposits

Indirect deposits increased overall during the year by Euro 1.2 billion, equal to 11.4% of the previous year, to about Euro 11.7 billion.

In particular, this was attributable to deposits from institutional customers, up by about Euro 1.2 billion (+29.4%) to about Euro 5.0 billion, while ordinary customer deposits rose by 0.9% to Euro 6.6 billion, due to the performance of assets under management (+8.9%), as partially offset by a decrease in assets under administration (-9.6%).

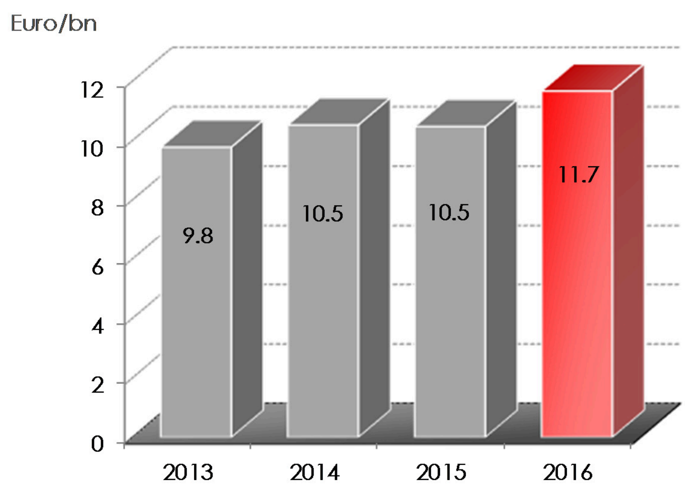
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	**31.12.2016**	**%**	**31.12.2015**	**%**	**Change Amount**	**Change %**
Assets under administration	**2,585,726**	**22.2%**	**2,859,053**	**27.3%**	**-273,328**	**-9.6%**
Assets under management	**4,062,357**	**34.8%**	**3,731,726**	**35.7%**	**330,630**	**8.9%**
of which: Mutual funds and Sicavs	*1,351,542*	*11.6%*	*1,131,017*	*10.8%*	*220,525*	*19.5%*
Managed portfolios	*657,749*	*5.6%*	*561,563*	*5.4%*	*96,186*	*17.1%*
Bancassurance	*2,053,066*	*17.6%*	*2,039,146*	*19.5%*	*13,920*	*0.7%*
Ordinary customer deposits	**6,648,082**	**57.0%**	**6,590,780**	**63.0%**	**57,303**	**0.9%**
Institutional customer deposits (1)	**5,013,679**	**43.0%**	**3,874,776**	**37.0%**	**1,138,902**	**29.4%**
Indirect deposits (1)	**11,661,761**	**100.0%**	**10,465,556**	**100.0%**	**1,196,205**	**11.4%**

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2 billion (Euro 2 billion at 31.12.2015).

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 8.2% from 2013.

Chart no. 6 - **TREND IN INDIRECT DEPOSITS IN RECENT YEARS**



The following graph shows the breakdown in percentage terms of indirect ordinary customer deposits while the one below focuses on the breakdown of assets under management. Compared with the previous year's total, it highlights the increase in the majority share in favour of assets under management as opposed to assets under administration, in line with the previous year.

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2016**

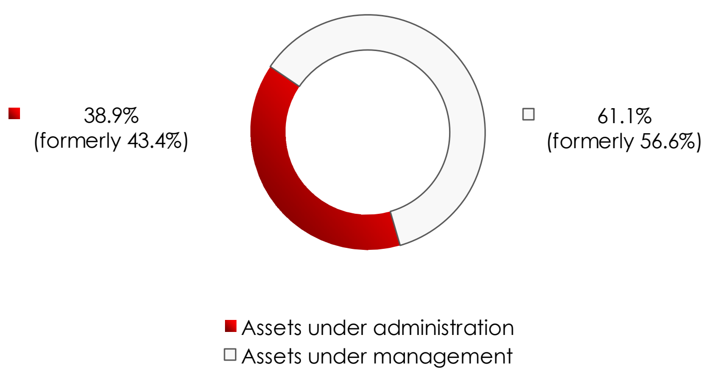
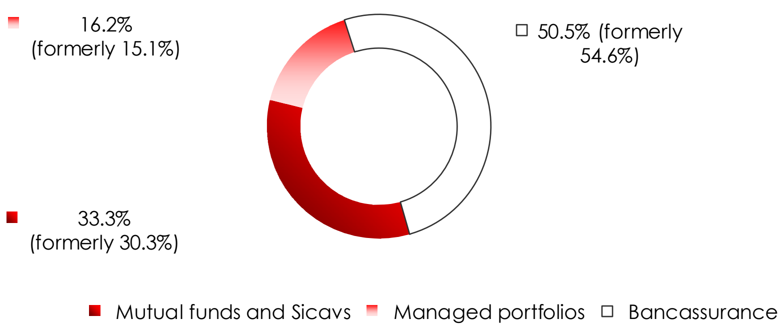


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2016**



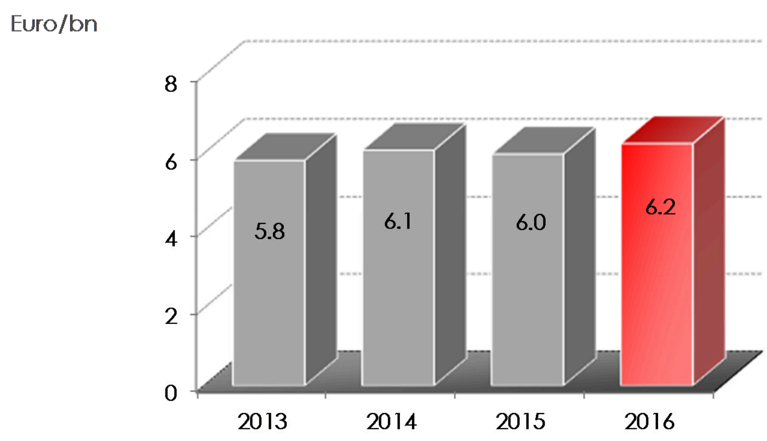
With regard to Mutual Funds, Sicavs and Managed portfolios, the year started very badly on fears of a recession in China, but the principal asset classes managed to achieve positive returns over the full year. In terms of the stock markets, the best returns were generated in the USA, supported by the improved macroeconomic situation, and in Japan, due to the monetary policy adopted by the central bank. Europe trailed due to the political tensions. The best returns on bonds were obtained from the high-yield issues. Emerging country bonds performed very well in the early part of the year, but lost some of their gains following the US elections. Eurozone government bonds (excluding Italy) also rose, as did US bonds which closed higher than at the end of 2015. The rate risk on the bond portfolios remained below the reference parameter for the entire year. More generally, management policies sought to maximise diversification; in particular, preference was given to loans with lower ratings and to inflation-linked securities. Investment in managed equity portfolios was in line with the reference parameter. In category terms, attention was given to the more stable sectors (non-cyclical consumption) rather than to financials. Preference was also given to securities paying a high dividend.

7.2 - Credit management: loans to customers

Lending to customers at 31 December 2016 totalled about Euro 6.2 billion di euro, up by Euro 0.3 billion (+4.5%) over the year in confirmation, once again, of the support given to customers making recourse to loans; even excluding loans to institutional customers of about Euro 0.2 billion, total net loans to customers rose by about Euro 0.1 million (+1%).

The following chart shows the trend in loans in the last three years, reflecting an average annual compound growth rate of 2.9%.

Chart no. 9 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**



Changes in the amounts of the components of loans to customers by technical form are summarised in the following table, while the subsequent table shows changes in the year by customer grouping.

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

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	%
Current accounts	1.563.490	25,0%	1.613.606	27,0%	-50.116	-3,1%
Mortgages and other long-term loans	3.617.638	57,9%	3.578.422	59,9%	39.216	1,1%
Other	854.244	13,7%	785.805	13,1%	68.439	8,7%
Loans to ordinary customers	**6.035.372**	**96,6%**	**5.977.833**	**100,0%**	**57.539**	**1,0%**
Loans to institutional customers	**211.681**	**3,4%**	**0**	**0,0%**	**211.681**	**n.a.**
Loans to customers	**6.247.053**	**100,0%**	**5.977.833**	**100,0%**	**269.220**	**4,5%**

Table no. 5 - **BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER**

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	%
Households	1,415,250	22.7%	1,383,156	23.1%	32,093	2.3%
Non-financ cos, artisans and other fam. bus.	4,087,059	65.4%	4,106,495	68.7%	-19,436	-0.5%
Financial companies	720,980	11.5%	471,879	7.9%	249,101	52.8%
Private and other social institutions (1)	23,764	0.4%	16,303	0.3%	7,461	45.8%
Loans to customers	**6,247,053**	**100.0%**	**5,977,833**	**100.0%**	**269,219**	**4.5%**

(1) *inclusive of financial and non-financial companies in the rest of the world*

Loans to non-financial companies, artisans and family businesses amounted to about Euro 4.1 billion. Although slightly lower than in the prior year, this still represents the large majority (65.4%) of total lending to customers.

The following chart shows the percentage breakdown of loans at the end of 2016, analysed by type of customer, while the subsequent chart focuses on the loans made to non-financial companies, artisans and family businesses, analysed by business sector.

Chart no. 10 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2016, ANALYSED BY TYPE OF CUSTOMER**

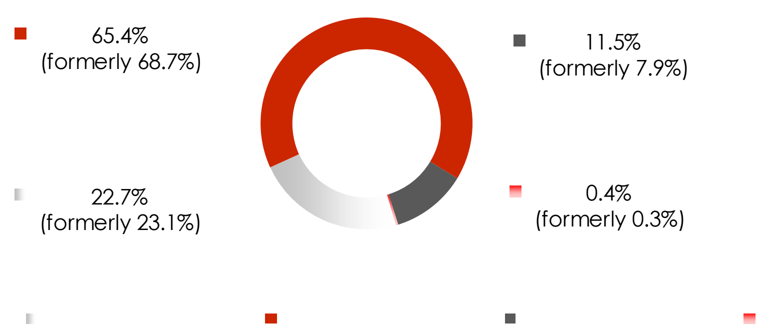
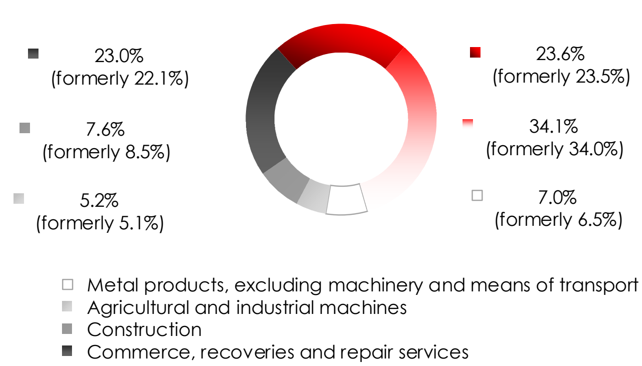


Chart no. 11 - **BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2016 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES**



Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry. Taken together, these loans represent 54.2% of the total corresponding to about Euro 2.2 billion.

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2016 continues to reflect a high degree of risk diversification, although amounts are increasing as can be seen from the following table.

Table no. 6 - **CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers [1]	**31.12.2016**	**31.12.2015**
First 10	1.86%	1.85%
First 20	3.04%	3.01%
First 30	4.03%	3.92%
First 50	5.70%	5.53%

[1] net of loans to the subsidiary FIDES S.p.A. and to Cassa di Compensazione e Garanzia S.p.A.

None of the largest customers are "Large Exposures" for supervisory purposes at the reference date; in fact, "Large exposures" only comprise Group companies, the Ministry of the Treasury and Cassa di Compensazione e Garanzia S.p.A., with a total nominal value (including guarantees given and commitments) of about Euro 2.9 billion, corresponding to a weight total of about Euro 0.1 billion.

The Bank's total amount of net non-performing loans made up of doubtful loans, unlikely to pay, non-performing past due and/or overdrawn exposures, came to Euro 449.9 million at 31 December 2016, net of adjustments of Euro 387.8 million, compared with Euro 462.8 million in the previous year. In particular, net doubtful loans totalled Euro 253.1 million, unlikely to pay, Euro 190.6 million and non-performing past due and/or overdrawn exposures Euro 6.1 million.

The following table summarises the gross and net indicators relating to credit risk; in particular, the incidence of essentially unsecured non-performing loans has decreased due to above mentioned disposal of loans with a nominal value of about Euro 97.1 million.

Table no. 7 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% of gross loans	**31.12.2016**	**31.12.2015**
Gross non-performing loans to customers	12.57%	13.65%
of which:		
- gross doubtful loans	8.45%	9.26%
- unlikely to pay, gross	4.02%	4.05%
- non-performing past due and/or overdrawn exposures, gross	0.11%	0.34%

% of net loans	**31.12.2016**	**31.12.2015**
Net non-performing loans to customers	7.20%	7.74%
of which:		
- net doubtful loans	4.05%	4.39%
- unlikely to pay, net	3.05%	3.05%
- non-performing past due and/or overdrawn exposures, net	0.10%	0.31%

The main indicators on the coverage of impaired loans are reported below considering, for non-performing loans, the amount of direct write-downs made over the years, together with those relating to performing loans. The percentage coverage of impaired loans has decreased due to the disposal of unsecured non-performing loans (which had a higher than average coverage percentage), as discussed in section "3.2 Significant events".

Table no. 8 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% Coverage of non-performing and performing loans	**31.12.2016**	**31.12.2015**
% Coverage of doubtful loans	55.03%	55.94%
% Coverage of doubtful loans, gross of cancellations	63.34%	65.75%
% Total coverage of impaired loans	46.30%	47.22%
% Coverage of impaired loans, gross of cancellations	53.40%	55.81%
% Coverage of performing loans	0.48%	0.62%

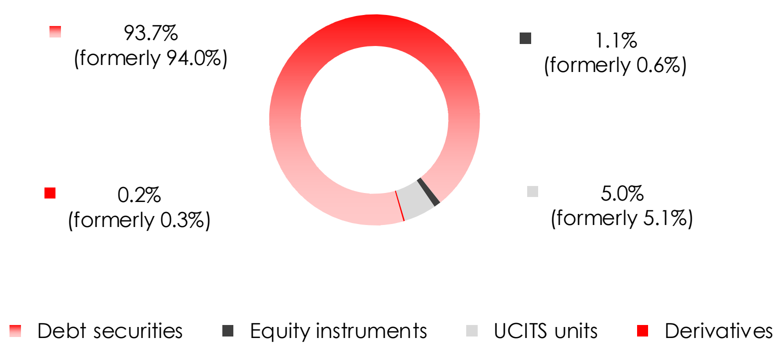
7.3 - The securities portfolio and interbank position

Securities portfolio

At 31 December 2016, the total financial assets of the Bank amounted to Euro 1.5 billion, a decrease of 2.9% compared with the end of the previous year.

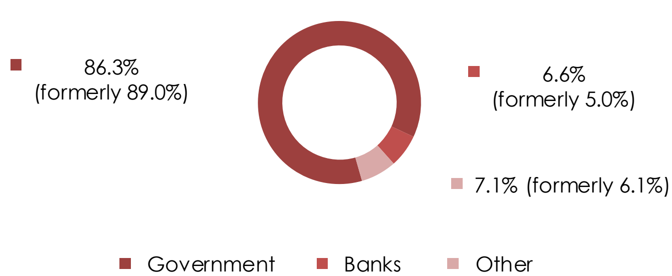
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (93.7%) of the investments still consist of debt securities.

Chart no. 12 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2016 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of 2016, 86.3% relates to government securities, 6.6% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 13 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2016 BY TYPE OF ISSUER**



Activity during the year mostly involved transactions in Italian government securities, employing strategies that took advantage of market opportunities. A proprietary trading desk was established during the year, operating on all the principal asset classes with positive returns, in full compliance with the assigned limits.

In general, the bond markets performed well, with the best results coming from high-yield bonds. Emerging country bonds performed very well in the early part of the year, but lost some of their gains following the US elections. Euro area (excluding Italy) government bonds also generated good results, while US government bonds closed the year with higher yields than in 2015.

After a poor start, on fears of a recession in China, the world's principal stock markets closed the year higher. The best returns were achieved in the United States, due to the improved macroeconomic situation, and in Japan due to the monetary policy of the central bank.

The currencies of the developed countries did not fluctuate much. As an exception, the British pound devalued sharply following the results of the Brexit referendum. The yen was considered to be a refuge currency for many months, resulting in marked appreciation before weakening again after the adoption of new expansionary measures by the central bank. With regard to the emerging currencies, the worst returns were reported by the Mexican peso and the Turkish lira, while those tied to commodities benefited from the progressive stabilisation of the oil price.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Bank uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions. The Bank has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments. In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral with predominantly daily margining and zero threshold (so-called Collateral). In such cases the other party is considered "risk free" and the Credit Value Adjustment (CVA) is zero.

Lastly, work continued during 2016 on implementing the requirements of European Market Infrastructure Regulation (EMIR) 648/2012 dated 4 July 2012 and subsequent delegated and enabling regulations. With specific reference to the requirement to reconcile portfolios with counterparties, the bank has adopted a top-level platform in order to automate compliance.

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 31 December 2016 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. 9 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		**31.12.2016 Italy**	**Total**
Financial assets available for trading	Nominal value	1,500	1,500
	Book value	1,353	1,353
Financial assets available for sale	Nominal value	1,289,288	1,289,288
	Book value	1,286,804	1,286,804
Sovereign debt	**Nominal value**	**1,290,788**	**1,290,788**
	Book value	**1,288,157**	**1,288,157**

Table no. 10 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		**Italy**	**31.12.2016 Nominal value**	**Book value**
Financial assets available for trading	up to 1 year			
	1 to 3 years			
	3 to 5 years			
	over 5 years	1.500	1.500	1.353
	Total	1.500	1.500	1.353
Financial assets available for sale	up to 1 year	112.000	112.000	112.184
	1 to 3 years	320.000	320.000	321.756
	3 to 5 years	130.000	130.000	128.515
	over 5 years	727.288	727.288	724.349
	Total	1.289.288	1.289.288	1.286.804
Sovereign debt	**up to 1 year**	**112.000**	**112.000**	**112.184**
	1 to 3 years	**320.000**	**320.000**	**321.756**
	3 to 5 years	**130.000**	**130.000**	**128.515**
	over 5 years	**728.788**	**728.788**	**725.702**
	Total	**1.290.788**	**1.290.788**	**1.288.157**

Net interbank position

The net interbank position at 31 December 2016 reflects deposits of about Euro 0.5 billion, up from about Euro 0.4 billion at the end of the prior year. The excess liquidity was largely invested in the MMF market.

7.4 - Shareholders' equity and capital adequacy

Shareholders' equity at 31 December 2016, inclusive of net profit for the year, increased to Euro 865.6 million compared with Euro 852 million at the 2015 year end.

After a pay-out of 35.5% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2016 amounts to Euro 1,037.7 million (CET 1 + AT1 Euro 855.9 million + T2 Euro 181.8 million). This is Euro 13.9 million lower than the amount reported at the end of the prior year, Euro 1,051.6 million, to the reduction in class 3 capital by Euro 36.5 million since 31 December 2015.

Ahead of formal clarification from the European authorities about the determination of supervisory capital, reference was made to the indications contained in the Bank of Italy communication dated 23 January 2017, which allows "less significant" banks that have exercised the option envisaged in Bank of Italy Circular 285 to continue excluding from own funds the profits and losses on exposures to central administrations recorded in the "Financial assets available for sale" portfolio.

At 31 December 2016, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 16.3% (15.8% at 31 December 2015). The Tier 1 ratio (T1/Risk-weighted assets) was 16.4% (15.8% at 31 December 2015), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 19.9% (20.0% at 31 December 2015).

The minimum capital required by law for 2016 for banks that belong to a banking group, including the capital conservation buffer of 0.625%, amounted to 5.125% for the Common Equity Tier 1 ratio, 6.625% for the Tier 1 ratio and 8.625% for the Total Capital ratio.

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.

7.5 - 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 financial statements and which forms the basis of the specific comments below.

As indicated in the Introduction, in order to ensure consistent comparison between years and therefore better present the summary data and indices, the profit for the year ended 31 December 2015, reported in the reclassified income statement, was adjusted as follows:

- the Q1 2015 amounts of the captions affected by the transfer of 32 branches from Banco Desio to Banca Popolare di Spoleto (total of Euro 2.4 million) were adjusted;
- the Q1 2015 amounts of the captions affected by the transfer of the Milan branch from Banca Popolare di Spoleto to Banco Desio (total of Euro 0.1 million) were adjusted.

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 190 "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 150b) "Other administrative expenses" and as an increase in caption 180 "Net adjustments to intangible assets", net of other decreases in item 150a) "Payroll costs" included in "Operating expenses";
- dividends receivable from investments in subsidiaries have been reclassified from caption 70 "Dividends and similar income" to the caption "Dividends from investments in subsidiaries" below "Result of operations";
- 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/extraordinary dividends from financial assets held for sale";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 260 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown in the following table, which presents the reclassified income statement, 2016 closed with a net profit of Euro 31.7 million. This represents a decrease of Euro 3.4 million (-9.8%) compared with the prior year of Euro 35.1 million.

Table no. 11 - **RECLASSIFIED INCOME STATEMENT**

	Captions *Amounts in thousands of Euro*	**31.12.2016**	**31.12.2015**	**Change** **Amount**	**%**
10+20	Net interest income	134,617	156,048	-21,432	-13.7%
70	Dividends and similar income	1,288	999	288	28.9%
40+50	Net commission income	99,196	107,061	-7,865	-7.3%
80+90+100+ 110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	17,756	30,131	-12,376	-41.1%
190	Other operating income/expense	7,982	9,734	-1,751	-18.0%
	Operating income	**260,838**	**303,974**	**-43,136**	**-14.2%**
150 a	Payroll costs	-113,522	-114,917	1,395	-1.2%
150 b	Other administrative costs	-52,734	-50,689	-2,045	4.0%
170+180	Net adjustments to property, plant and equipment and intangible assets	-7,749	-7,893	144	-1.8%
	Operating costs	**-174,006**	**-173,499**	**-507**	**0.3%**
	Result of operations	**86,832**	**130,475**	**-43,643**	**-33.4%**
	Gains (Losses) on disposal or repurchase of loans	709	-449	1,158	-258.1%
130 a	Net impairment adjustments to loans and advances	-45,072	-89,177	44,105	-49.5%
130 b	Net impairment adjustments to financial assets available for sale	-15	0	-15	
130 d	Net impairment adjustments to other financial assets	19	-157	176	-111.9%
160	Net provisions for risks and charges	-2,748	-2,050	-698	34.0%
	Dividends from equity investments in subsidiaries	5,640	3,134	2,506	80.0%
	Profit (loss) from operations before tax	**45,365**	**41,776**	**3,589**	**8.6%**
260	Income taxes on current operations	-12,084	-9,576	-2,508	26.2%
	Profit (loss) from operations after tax	**33,281**	**32,200**	**1,081**	**3.4%**
210	Profit (loss) from equity investments	13,379	7,857	5,522	70.3%
	Provisions for risks and charges, other provisions and expenses/gains on disposal of financial assets available for sale	-22,833	-7,074	-15,759	222.8%
	Non-recurring profit (loss) before tax	**-9,454**	**786**	**-10,239**	**n.s.**
	Income taxes from non-recurring items	7,852	2,134	5,718	268.0%
	Non-recurring profit (loss) after tax	**-1,602**	**2,920**	**-4,521**	**n.s.**
290	**Net profit (loss) for the period**	**31,679**	**35,120**	**-3,441**	**-9.8%**

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. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2016**

	Captions	As per financial statements							Reclassified income statement
	Amounts in thousands of Euro	**31.12.2016**	**Tax/expense recoveries**	**Dividends from equity investments**	**Amortisation of leasehold improvements**	**Gains (Losses) on disposal or repurchase of loans**	**Provisions for risks and charges/other provisions and expenses**	**Income taxes**	**31.12.2016**
10+20	Net interest income	134,617							134,617
70	Dividends and similar income	10,133		-8,845					1,288
40+50	Net commission income	99,196							99,196
80+90+100+110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	18,465				-709			17,756
190	Other operating income/expense	35,631	-28,980		1,331				7,982
	Operating income	**298,042**	**-28,980**	**-8,845**	**1,331**	**-709**	**0**	**0**	**260,838**
150 a	Payroll costs	-135,491	5,059				16,910		-113,522
150 b	Other administrative costs	-83,903	23,922				7,247		-52,734
170+180	Net adjustments to property, plant and equipment and intangible asset	-6,418			-1,331				-7,749
	Operating costs	**-225,812**	**28,980**		**-1,331**		**24,157**	**0**	**-174,006**
	Result of operations	**72,230**	**0**	**-8,845**	**0**	**-709**	**24,157**	**0**	**86,832**
	Gains (Losses) on disposal or repurchase of loans					709			709
130 a	Net impairment adjustments to loans and advances	-45,013					-58		-45,072
130 b	Net impairment adjustments to financial assets available for sale	-1,876					1,860		-15
130 d	Net impairment adjustments to other financial assets	-468					487		19
160	Net provisions for risks and charges	-2,340					-408		-2,748
	Dividends from equity investments in subsidiaries			5,640					5,640
	Profit (loss) from operations before tax	**22,532**	**0**	**-3,205**	**0**	**0**	**26,038**	**0**	**45,365**
260	Income taxes on current operations	-4,232						-7,852	-12,084
	Profit (loss) from operations after tax	**18,300**	**0**	**-3,205**	**0**	**0**	**26,038**	**-7,852**	**33,281**
210	Profit (loss) from equity investments	13,379							13,379
	Extraordinary provisions for risks and charges, other provisions and expenses/gains on disposal of financial assets available for sale			3,205			-26,038		-22,833
	Non-recurring profit (loss) before tax	**13,379**	**0**	**3,205**	**0**	**0**	**-26,038**	**0**	**-9,454**
	Income taxes from non-recurring items							7,852	7,852
	Non-recurring profit (loss) after tax	**13,379**	**0**	**3,205**	**0**	**0**	**-26,038**	**7,852**	**-1,602**
290	**Net profit (loss) for the period**	**31,679**	**0**	**0**	**0**	**0**	**0**	**0**	**31,679**

Table no. 13 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2015**

Captions		As per financial statements	Reclassifications						Reclassified income statement
Amounts in thousands of Euro		31.12.2015	Tax/expense recoveries	Dividends from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	31.12.2015
10+20	Net interest income	156.048							156.048
70	Dividends and similar income	4.133		-3.134					999
40+50	Net commission income	107.061							107.061
80+90+100+110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	29.683				449			30.131
190	Other operating income/expense	37.423	-29.714		2.024				9.734
	Operating income	**334.349**	**-29.714**	**-3.134**	**2.024**	**449**	**0**	**0**	**303.974**
150 a	Payroll costs	-119.240	4.130				193		-114.917
150 b	Other administrative costs	-82.506	25.585				6.232		-50.689
170+180	Net adjustments to property, plant and equipment and intangible asset	-5.868			-2.024				-7.893
	Operating costs	**-207.614**	**29.714**		**-2.024**		**6.425**	**0**	**-173.499**
	Result of operations	**126.735**	**0**	**-3.134**	**0**	**449**	**6.425**	**0**	**130.475**
	Gains (Losses) on disposal or repurchase of loans					-449			-449
130 a	Net impairment adjustments to loans and advances	-88.041					-1.135		-89.177
130 d	Net impairment adjustments to other financial assets	-339					182		-157
160	Net provisions for risks and charges	-3.652					1.602		-2.050
	Dividends from equity investments in subsidiaries			3.134					3.134
	Profit (loss) from operations before tax	**34.702**	**0**	**0**	**0**	**0**	**7.074**	**0**	**41.776**
260	Income taxes on current operations	-7.442						-2.134	-9.576
	Profit (loss) from operations before tax	**27.260**	**0**	**0**	**0**	**0**	**7.074**	**-2.134**	**32.200**
210	Profit (loss) from equity investments	7.857							7.857
240	Gains (losses) on disposal of investments	2							2
	Extraordinary provisions for risks and charges, other provisions and expenses/gains on disposal of financial assets available for sale						-7.074		-7.074
	Non-recurring profit (loss) before tax	**7.859**	**0**	**0**	**0**	**0**	**-7.074**	**0**	**786**
	Income taxes from non-recurring items							2.134	2.134
	Non-recurring profit (loss) after tax	**7.859**	**0**	**0**	**0**	**0**	**-7.074**	**2.134**	**2.920**
290	**Net profit (loss) for the period**	**35.120**	**0**	**0**	**0**	**0**	**0**	**0**	**35.120**

The profit for the year ended 31 December 2016 of Euro 31.7 million was 9.8% lower than the amount of Euro 35.1 million reported for the comparative year; results benefited from the decline in net impairment adjustments to loans and advances to Euro 45.1 million (formerly Euro 89.2 million), which was absorbed by the lower contribution made by net income from trading, hedging and the sale/repurchase of loans, financial assets and liabilities and financial assets and liabilities designated at fair value through profit and loss, of Euro 17.8 million (formerly Euro 30.1 million), by the erosion of net interest income of about Euro 21.4 million due to the situation in the money markets, by the contraction of net commission income of Euro 7.9 million, by the higher incidence of current taxes of Euro 2.5 million and by non-recurring losses of Euro 1.6 million (income of Euro 2.9 million in the previous year).

The main cost and revenue items in the reclassified income statement are analysed below.

Operating income

Core revenues decreased by Euro 43.1 million on the prior year, declining to Euro 260.8 million (-14.2%). The change is attributable to the lower contribution of Euro 12.4 million from the aggregate of *net income from trading, hedging and disposal/repurchase of loans, financial assets and liabilities measured at fair value* (-41.1%), the reduction in *net interest income* of Euro 21.4 million (-13.7%), the reduction in net commission income of Euro 7.9 million (-7.3%) and the decrease in *other operating income/expenses* of Euro 1.7 million. This last balance is stated net of the reclassification to operating expenses of about Euro 5.5 million related to the charge for outsourced services provided by the Bank to Banca Popolare di Spoleto S.p.A., of which about Euro 4.8 million as a reduction in payroll costs and about Euro 0.7 million as a reduction in other administrative expenses. Conversely, *dividends and similar income* were up by Euro 0.3 million; this balance is stated net of the dividends totalling Euro 3.2 million that were recorded following the distribution of profit reserves authorised by Cedacri S.p.A., which have been reclassified as Non-recurring operating profit (loss) in the *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends on assets available for sale* caption.

The following table analyses *net commission income* by type.

Table no. 14 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	31.12.2016	%	31.12.2015	%	Change Amount	%
Collection and payment services	15,917	16.0%	16,043	15.0%	-126	-0.8%
Placement of securities	13,182	13.3%	15,004	14.0%	-1,823	-12.1%
Managed portfolios and order taking	9,293	9.4%	10,989	10.3%	-1,696	-15.4%
Distribution of insurance products	6,452	6.5%	8,656	9.2%	-2,203	-25.5%
Maintenance and management of current accounts	44,497	44.9%	46,718	43.6%	-2,221	-4.8%
Other commission	9,855	9.9%	9,651	9.0%	203	2.1%
Net commission income	**99,196**	**100.0%**	**107,061**	**100.0%**	**-7,865**	**-7.3%**

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets*, show an increase of Euro 0.5 million (+0.3%) with respect to the comparative period, coming in at Euro 174.0 million.

In particular, there were decreases in *payroll costs* of about Euro 1.4 million (-1.2%), net of about Euro 16.9 million relating to the provision to the Solidarity and leaving incentive fund, with related time value effect, which was reclassified to Net profit (loss) from non-recurring operations. *Other administrative costs* have increased on the other hand by about Euro 2.0 million (+4%).

The change was largely due to the increase in the up-front standard gross contribution to the Single Resolution Mechanism (SRM) of Euro 2.9 million for the year (formerly Euro 1.7 million) and the up-front standard gross contribution to the Deposit Guarantee Scheme (DGS)) of Euro 2.1 million (formerly Euro 1 million). The net balance is stated net of Euro 5.7 million (formerly Euro 5.3 million) relating to the additional gross contribution to the SRM reclassified as Non-recurring operating profit (loss) in the *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends on assets available for sale* caption.

Note that the balance is shown net of about Euro 1.6 million for the Parent Company's contribution to the Interbank Fund on behalf of Banca Tercas (recorded under "Other administrative costs" in the financial statements), which is shown under "Net impairment write-downs/write-backs of other financial transactions" to offset the income of the same amount caused by reimbursement of the Tercas contribution.

Result of operations

The result of operations for the year comes to Euro 86.8 million, which, in comparison to the prior year result of Euro 130.5 million, is down by Euro 43.6 million (-33.4%).

Net profit (loss) from operations after tax

The result of operations of Euro 86.8 million leads to a net profit (loss) from operations after tax of Euro 33.3 million, 3.4% up compared with Euro 32.2 million in the comparative period, considering:

- the weight of *net impairment adjustments to loans and advances* totalling Euro 45.1 million, down from Euro 89.1 million in the prior year, which reflect the slowdown in the deterioration of loans while maintaining a high level of coverage,
- *gains on disposal or repurchase of loans and receivables* of Euro 0.7 million (which in the comparative period showed a loss of Euro 0.5 million),
- *net provisions for risks and charges* of Euro 2.7 million which recorded a net provision of Euro 2.1 million in the comparative period,
- the contribution made by *dividends from equity investments in subsidiaries* of Euro 5.7 million (Euro 3.1 million in the comparative period),
- the essentially neutral effect of other minor items (losses of Euro 0.2 million in the comparative period);
- *income taxes on the profit from operations* of Euro 12.1 million (Euro 9.6 million in the comparative period).

It should be noted that:

- the balance of *net provisions for risks and charges* is stated net of about Euro 0.5 million released from the "Solidarity Fund" recorded in the prior year pursuant to the 2016 Stability Law to cover the subordinated bondholders of Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara and subsequently included in the standard DGS levy by the Interbank Deposit Protection Fund (FITD),
- the *net impairment adjustments to other financial assets* are stated net of the write-down of Euro 1.5 million relating to the commitment to purchase a minority interest for more than its fair value, and the write-down by Euro 0.5 million of the commitment (settled on 3 January 2017) to pay funds to Fondo Atlante,
- the balance of the *net impairment adjustments to financial assets available for sale* is stated net of the writedown of Euro 0.3 million of the equity interest recognised following the investment in Caricesena by the Voluntary Scheme of the Interbank Fund and the write-down of Euro 1.6 million of the investment in Fondo Atlante, which is classified among the financial assets available for sale at the reference date.

All the above amounts have been reclassified to Net profit (loss) from non-recurring operations in the *Special provisions for risks and charges, other provisions and expenses/special dividends from AFS assets.*

Non-recurring profit (loss) after tax

At the end of the year, *non-recurring result after tax* is negative for Euro 1.6 million, compared with the positive result of Euro 2.9 million in the previous year.

The balance includes:

- *Profit on equity investments* of Euro 13.4 million, deriving from the following events during the year that were described earlier

  - Euro 8.0 million from the sale of the residual equity investment in Chiara Assicurazioni S.p.A. and a price adjustment on the shares sold in 2013,
  - Euro 4.2 million from the cancellation of the equity investment in CPC S.A. in liquidation,
  - Euro 1.1 million from the gain on the sale of the shares in Istifid S.p.A.,
  - Euro 0.1 million from the cancellation of the equity investment in Rovere S.d.G. in liquidation,

  compared with the positive result reported in the prior year of Euro 7.9 million following the conversion at 1 October 2015 of the functional currency of CPC, a former subsidiary, from CHF to Euro;

- *Non-recurring provisions for risks and charges, other provisions and expenses/special dividends from financial assets available for sale* with a negative balance of Euro 22.8 million due to
  - one-time charges of Euro 16.9 million linked to the Income support solidarity fund with related discounting effect,
  - gross additional contribution to the Single Resolution Mechanism (SRM) of Euro 5.7 million,
  - adjustments of Euro 1.5 million linked to the commitment to purchase a minority investment for more than *fair value*,
  - adjustment of Euro 0.3 million on the alignment with *fair value* of the equity instrument recognised on the investment in Caricesena made by the Voluntary Scheme of the Interbank Fund,
  - adjustments of Euro 2.1 million linked to the measurement of the investment in Fondo Atlante (and related commitment to pay funds, settled on 3 January 2017);
  - income of Euro 3.2 million from the special dividend paid by Cedacri S.p.A.
  - release of Euro 0.5 million from the provision previously made to the “Solidarity Fund” established to cover the subordinated bondholders of bailed-out banks,

  compared with a negative balance of Euro 7.1 million in the prior year, mainly due to the special gross contribution to the SRM of Euro 5.3 million, the consultancy expenses of about Euro 1 million linked to the purchase and integration within the Group of Banca Popolare di Spoleto S.p.A., the provision of Euro 0.5 million to the "Solidarity Fund" to cover the subordinated bondholders of bailed-out banks and the release of the time-value effect of Euro 0.2 million relating to the Solidarity and leaving incentive fund established in 2013;

- Positive effect of the *Income taxes for the year on non-recurring items* of Euro 7.8 million (formerly Euro 2.1 million), essentially due to the more favourable tax treatment of income from equity investments and dividends under the participation exemption (Pex), being the principal component of non-recurring income, with respect to the non-recurring expenses recognised.

8 - Other information

8.1 - Investments in Banco di Desio e della Brianza S.p.A. held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

Name and Surname	Offices held at Banco di Desio e della Brianza S.p.A.	Title/Nature of holding	Ordinary shares at 31.12.2015	%	Ordinary shares at 31.12.2015	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares at 31.12.2016	%	Savings shares at 31.12.2016	%
Agostino Gavazzi	Chairman	Owned	78,244	0.067	0	0.000	0	0	0	0	78,244	0.067	0	0.000
		Bare ownership	5,500	0.005	0	0.000	0	0	0	0	5,500	0.005	0	0.000
		Registered to spouse	2,900	0.002	0	0.000	0	0	0	0	2,900	0.002	0	0.000
Stefano Lado *	Deputy Chairman	Owned	2,122,656	1.814	196,000	1.485	14,955	0	0	0	2,137,611	1.827	196,000	1.485
		Registered to spouse	6,500	0.006	0	0.000	0	0	0	0	6,500	0.006	0	0.000
		Owned via Vega Finanziaria SpA	6,885,730	5.885	571,522	4.329	0	0	0	0	6,885,730	5.885	571,522	4.329
Tommaso Cartone	Chief Executive Officer		0	0.000	0	0.000	27,500	0	0	0	27,500	0.024	0	0.000
Sandro Appetiti	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Graziella Bologna	Director		0	0	0	0	0	0	0	0	0	0	0	0
Cristina Finocchi Mahne	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Egidio Gavazzi	Director	Owned	15,000	0.013	0	0.000	0	0	0	0	15,000	0.013	0	0.000
Paolo Gavazzi	Director	Owned	642,453	0.549	15,004	0.114	0	0	0	0	642,453	0.549	15,004	0.114
Tito Gavazzi	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Gerolamo Pellicano'	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Gigliola Zecchi Balsamo	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Luciano Colombini	General Manager		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Eugenio Mascheroni	Chairman of the Board of		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Rodolfo Anghileri	Acting Statutory Auditor		0	0.000	20,000	0.151	0	0	0	0	0	0.000	20,000	0.151
Giulia Pusterla	Acting Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Giovanni Cucchiani	Alternate Statutory Auditor	Owned	14,240	0.0122	1,000	0.008	0	0	0	0	14,240	0.0122	1,000	0.008
		Registered to spouse	6,800	0.00581	0	0.000	0	0	0	0	6,800	0.00581	0	0.000
Elena Negonda	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Paolo Pasqui	Alternate Statutory Auditor		2,000	0.002	0	0.000	2,000	0	0	0	4,000	0.003	0	0.000
Ippolito Fabris	Deputy General Manager "Corporate Affairs" (left office on 17 July 2016)		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Mauro Walter Colombo	Senior Deputy General Manager (appointed by the BoD of 27 April 2016 from 2 May 2016)		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Maurizio Ballabio	Deputy General Manager "Corporate Affairs" (appointed by the BoD of 23 June 2016 from 18 July 2016)		13,000	0.011	0	0.000	0	0	0	0	13,000	0.011	0	0.000

* Mr. Stefano Lado has granted general power of attorney to his brother Mr. Luigi Lado by which he holds a stake of 0.2615% of the ordinary shares (306,039) of the Bank as well as the control of Vega Finanziaria S.p.A.; He also holds a stake of 0.2461% of the savings shares (32,500) of the Bank.

8.2 - Investments in subsidiaries held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

At 31 December 2016 no equity investments were held in subsidiaries by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Managers holding office at the year end and neither have there been any movements in relation thereto in the course of the year.

8.3 - Treasury shares

At 31 December 2016, as was the case at the previous year end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and it did not trades in treasury share or shares of its parent company, directly or through a trustee or other person.

8.4 – Transactions between Banco di Desio e della Brianza S.p.A. and the Parent Company and with subsidiaries or companies subject to significant influence

Set out below is a summary of balances with reference to the closing date of the year, of the balance sheet and income securities underlying the ongoing relations between the Bank and the parent company, its subsidiaries or companies subject to significant influence, by counterparty and by nature.

Table no. 15 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2016**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees/commitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A.	0	1,359	0	8	4
Subsidiaries					
Banca Popolare di Spoleto S.p.A.	403,181	74,589	14,819	7,568	4,383
FIDES S.p.A.	418,336	33	0	16,595	6
Associates (subject to significant influence)					
Chiara Assicurazioni S.p.A.	0	0	0	0	0
Istifid S.p.A.	0	0	0	2,568	119
Transactions by company	**821,517**	**75,981**	**14,819**	**26,739**	**4,512**
Breakdown of transactions by type					
Financial	818,080	75,603	0	18,217	611
Trade	0	0	14,819	2,395	198
Lease / management of assets	0	378	0	0	528
Supply of services	3,251	0	0	5,570	0
Other	186	0	0	557	3,175
Transactions by type	**821,517**	**75,981**	**14,819**	**26,739**	**4,512**

Note that all the transactions disclosed in the above table have been entered into, where it has been possible to make a comparison, by applying market conditions and rates.

In compliance with art. 37 paragraph 2 of Consob's Market Regulations (Resolution 16191 of 29 October 2007), it is hereby disclosed that Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A., the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries and neither does it do so under banking legislation nor under civil law. For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

8.5 - Ratings

On 27 June 2016, following its annual review, Fitch awarded the following new ratings to the Parent Company:

- Long term IDR "BBB-" Outlook Stable (formerly "BBB" Outlook Stable)
- Viability Rating "bbb-" (formerly "bbb")

and left the following rating unchanged:

- Short term IDR confirmed at "F3"
- Support Rating confirmed at "5"Support Rating Floor confirmed at "No Floor".

8.6 – Transactions with related parties and/or associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated persons (pursuant to art. 53 of the CFA), 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, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2016 are disclosed in Part H of the explanatory notes.

8.7 – Information on incentive plans

With the substitute payment of an equivalent amount in the month of June to all beneficiaries of the 2011-2013 Stock Grant Plan, the Plan is to be considered to all effects concluded. There are no more equity-based payments.

8.8 – Report on the adoption of the code of conduct for listed companies

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Group's website, along with this report on operations, and to which reference should be made.

8.9 – Research and development activities

In its capacity as Parent Company, the Bank, as described in paragraph 6.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, simple and more flexible; the customers of the Group's banks have access to the latest versions of the home and mobile banking platforms, which facilitate banking transactions using up-to-date technologies on multiple devices (pc, *smartphone*, *phablet*, *tablet*), operating systems (*windows*, *android*, *ios*) and browsers. At the same time, work continues on expansion of the services offered by internet banking, including the *Jiffy* payment system.

The virtualisation project has encouraged use of the advanced electronic signature for transactions at the Group's branches, with the replacement of workstations with advanced technologies including graphics tablets. The project continues with work to set up the electronic signature of contracts.

8.10 – Opt-out from obligation to publish information documents for extraordinary operations pursuant to Consob regulations

Pursuant to art. 3 of Consob resolution no. 18079 of 20 January 2012, the Bank has exercised its right to opt-out as provided by art. 70, paragraphs 8 and by art. 71, paragraph 1-bis of Consob Regulation 11971/99, effectively exercising its right to opt-out from the obligation to publish information documents required by Attachment 3B of the aforementioned Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

9 - Outlook for the rest of 2017 and principal risks and uncertainties

The financial statements at 31 December 2016 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in 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 Part E of the explanatory notes – Information on risks and related hedging policy.

Furthermore, explanatory notes on the levels of control in the management control and coordination function and on the internal control system are included in the relevant paragraphs of this report, with references made, for further detailed information, to the Annual Report on Corporate Governance, which is available on the Parent Company's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Finally, based on the information currently available, the outlook for the operations of the Bank over the coming year involves:

- further pressure on interest income, given continuation of the ECB's highly expansive monetary policy, which may be offset by a steady improvement in commission income, especially due to the effect of commercial activity to broaden the customer base and develop services in the areas of asset management, home mortgages, consumer credit, export and import services for SMEs, and "personal protection" by life and non-life policies, among the principal objectives identified in the Group's business model;
- a possible reduction in the cost of lending due to the intensive commercial and lending activity designed to steadily improve the quality of customer relationships and performing loans, as well as the effect of the steadily reduced flow of new impaired loans already seen during 2016;
- constant attention to cost management throughout the entire chain of cost-generating activities, which together with the further containment of payroll costs linked to the voluntary redundancy programme implemented successfully in 2016 (although the greatest effects will be seen in future

years), will confirm the benefits deriving from the continuous pursuit of organisational efficiency, despite the impact of the cost of contributing to the SRM and the Interbank Deposit Guarantee Fund.

10 - Motion for approval of financial statements and allocation of net profit

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2016, which report a net profit for the year of Euro 31,679,129.57 as shown by the income statement.
Considering:

- the provisions of art. 31 of the Articles of Association;
- the Recommendation of the European Central Bank dated 13 December 2016, which requires:
  i) the adoption of a dividend distribution policy that still makes it possible, after each distribution, for the bank to comply with its minimum capital requirements;
  ii) for institutions like Banco Desio that on 31 December 2016 have already reached the fully loaded ratios required on full implementation of EU Regulation 575/2013, the distribution of dividends on an prudent basis, so as to continue to meet all of the minimum requirements, also in the event of poorer economic and financial conditions;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

- 10% to be allocated to the legal reserve	Euro	3,167,913.00
- 10% to be allocated to the statutory reserve	Euro	3,167,913.00
- to the shareholders:		
Euro 0.0846 for each of the 117,000,000 ordinary shares	Euro	9,898,200.00
Euro 0.1016 for each of the 13,202,000 savings shares	Euro	1,341,323.20
- to the charity reserve	Euro	95,000.00
- further allocation to the statutory reserve	Euro	14,008,780.37
Total net profit	**Euro**	**31,679,129.57**

Desio, 9 February 2017

The Board of Directors

Financial statements

BALANCE SHEET

ASSETS

Assets	31.12.2016	31.12.2015	Change amount	%
10. Cash and cash equivalents	24,193,580	27,408,982	(3,215,402)	-11.7%
20. Financial assets held for trading	9,588,487	3,065,058	6,523,429	212.8%
40. Financial assets available for sale	1,482,631,219	1,531,640,815	(49,009,596)	-3.2%
60. Due from banks	500,275,633	447,668,762	52,606,871	11.8%
70. Loans to customers	6,247,052,601	5,977,833,324	269,219,277	4.5%
80. Hedging derivatives	262,439	1,859,493	(1,597,054)	-85.9%
100. Equity investments	264,564,929	317,808,556	(53,243,627)	-16.8%
110. Property, plant and equipment	135,219,149	137,570,986	(2,351,837)	-1.7%
120. Intangible assets	3,238,199	3,571,866	(333,667)	-9.3%
of which:				
- goodwill	*1,728,505*	*1,728,505*		
130. Tax assets	141,774,714	141,707,165	67,549	0.0%
a) current	*20,218,065*	*20,601,033*	*(382,968)*	*-1.9%*
b) deferred	*121,556,649*	*121,106,132*	*450,517*	*0.4%*
of which Law 214/2011	*102,254,855*	*107,643,325*	*(5,388,470)*	*-5.0%*
140. Non-current assets and disposal groups held for sale	-	1,403,094	(1,403,094)	-100.0%
150. Other assets	117,081,292	103,186,799	13,894,493	13.5%
Total assets	**8,925,882,242**	**8,694,724,900**	**231,157,342**	**2.7%**

LIABILITIES

Liabilities and shareholders' equity	31.12.2016	31.12.2015	Change amount	%
10. Due to banks	1,011,517,894	810,832,626	200,685,268	24.8%
20. Due to customers	5,622,897,682	5,155,059,335	467,838,347	9.1%
30. Debt securities in issue	1,210,559,471	1,625,686,890	(415,127,419)	-25.5%
40. Financial liabilities held for trading	2,164,084	2,021,751	142,333	7.0%
50. Financial liabilities designated at fair value through profit and loss	15,907,989	22,828,154	(6,920,165)	-30.3%
60. Hedging derivatives	2,778,490	19,924,185	(17,145,695)	-86.1%
80. Tax liabilities	11,362,214	12,351,817	(989,603)	-8.0%
b) deferred	*11,362,214*	*12,351,817*	*(989,603)*	*-8.0%*
100. Other liabilities	123,412,558	140,937,562	(17,525,004)	-12.4%
110. Provision for termination indemnities	21,354,710	21,110,986	243,724	1.2%
120. Provisions for risks and charges:	38,359,675	31,925,871	6,433,804	20.2%
b) other provisions	*38,359,675*	*31,925,871*	*6,433,804*	*20.2%*
130. Valuation reserves	15,800,277	22,623,132	(6,822,855)	-30.2%
160. Reserves	734,237,940	708,127,534	26,110,406	3.7%
170. Share premium reserve	16,145,088	16,145,088		
180. Share capital	67,705,040	67,705,040		
200. Net profit (loss) for the period (+/-)	31,679,130	37,444,929	(5,765,799)	-15.4%
Total liabilities and shareholders' equity	**8,925,882,242**	**8,694,724,900**	**231,157,342**	**2.7%**

INCOME STATEMENT

	31.12.2016	31.12.2015	Change amount	%
10. Interest and similar income	177,670,231	227,265,417	(49,595,186)	-21.8%
20. Interest and similar expense	(43,053,467)	(62,962,453)	19,908,986	-31.6%
30. Net interest income	**134,616,764**	**164,302,964**	**(29,686,200)**	**-18.1%**
40. Commission income	103,748,078	116,094,579	(12,346,501)	-10.6%
50. Commission expense	(4,552,098)	(5,096,623)	544,525	-10.7%
60. Net commission income	**99,195,980**	**110,997,956**	**(11,801,976)**	**-10.6%**
70. Dividends and similar income	10,132,822	4,133,497	5,999,325	145.1%
80. Net trading income	3,488,006	3,284,656	203,350	6.2%
90. Net hedging gains (losses)	(562,969)	168,527	(731,496)	n.s.
100. Gains (losses) on disposal or repurchase of:	15,600,414	26,450,943	(10,850,529)	-41.0%
a) loans	*709,477*	*(448,649)*	*1,158,126*	*-258.1%*
b) financial assets available for sale	*16,114,464*	*28,645,359*	*(12,530,895)*	*-43.7%*
d) financial liabilities	*(1,223,527)*	*(1,745,767)*	*522,240*	*-29.9%*
110. Net results on financial assets and liabilities designated at fair value	(60,362)	(221,377)	161,015	-72.7%
120. Net interest and other banking income	**262,410,655**	**309,117,166**	**(46,706,511)**	**-15.1%**
130. Net impairment adjustments to:	(47,357,032)	(92,943,916)	45,586,884	-49.0%
a) loans	*(45,013,431)*	*(92,531,935)*	*47,518,504*	*-51.4%*
b) financial assets available for sale	*(1,875,617)*		*(1,875,617)*	
d) other financial assets	*(467,984)*	*(411,981)*	*(56,003)*	*n.s.*
140. Net profit from financial activities	**215,053,623**	**216,173,250**	**(1,119,627)**	**-0.5%**
150. Administrative costs:	(219,394,184)	(206,324,826)	(13,069,358)	6.3%
a) payroll costs	*(135,491,216)*	*(122,252,839)*	*(13,238,377)*	*10.8%*
b) other administrative costs	*(83,902,968)*	*(84,071,987)*	*169,019*	*-0.2%*
160. Net provisions for risks and charges	(2,340,350)	(3,651,823)	1,311,473	-35.9%
170. Net adjustments to property, plant and equipment	(4,989,745)	(5,036,976)	47,231	-0.9%
180. Net adjustments to intangible assets	(1,428,291)	(1,133,320)	(294,971)	26.0%
190. Other operating charges/income	35,631,341	38,352,233	(2,720,892)	-7.1%
200. Operating costs	**(192,521,229)**	**(177,794,712)**	**(14,726,517)**	**8.3%**
210. Profit (loss) from equity investments	13,379,084	7,857,489	5,521,595	70.3%
250. Profit (loss) from current operations before tax	**35,911,478**	**46,238,007**	**(10,326,529)**	**-22.3%**
260. Income taxes on current operations	(4,232,348)	(8,793,078)	4,560,730	-51.9%
270. Profit (loss) from current operations after tax	**31,679,130**	**37,444,929**	**(5,765,799)**	**-15.4%**
290. Net profit (loss) for the period	**31,679,130**	**37,444,929**	**(5,765,799)**	**-15.4%**

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2016	31.12.2015
10.	**Net profit (loss) for the period**	**31,679,130**	**37,444,929**
	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	(326,908)	673,378
50.	Non-current assets and disposal groups held for sale	-	-
60.	Portion of the v aluation reserv es of the equity inv estments carried at equity:	-	-
	Other elements of income, net of income taxes with reversal to income statement	-	-
70.	Foreign inv estment hedges	-	-
80.	Exchange differences	-	-
90.	Cash-flow hedges	(1,845,381)	62,843
100.	Financial assets av ailable for sale	(4,650,566)	(2,624,044)
110.	Non-current assets and disposal groups held for sale	-	-
120.	Portion of the v aluation reserv es of the equity inv estments carried at equity	-	-
130.	**Total other elements of income (net of income taxes)**	**(6,822,855)**	**(1,887,823)**
140.	**Total comprehensive income (Captions 10+130)**	**24,856,275**	**35,557,106**

STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016

	Balance at 31.12.2015	Changes in opening balances	Balance at 01.01.2016	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2016
							Transactions on shareholders' equity						Comprehensive income at 31.12.2016	
				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		
Share capital:														
a) ordinary shares	60,840,000	-	60,840,000				-							60,840,000
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserv e	16,145,088		16,145,088			-								16,145,088
Reserv es:														
a) from profits	708,127,534		708,127,534	26,205,406		(95,000)								734,237,940
b) other	-		-			-								-
Valuation reserv es	22,623,132		22,623,132										(6,822,855)	15,800,277
Equity instruments														
Treasury shares			-											
Net profit (loss) for the perioc	37,444,929		37,444,929	(26,205,406)	(11,239,523)								31,679,130	31,679,130
Shareholders' equity	**852,045,723**		**852,045,723**	**-**	**(11,239,523)**	**(95,000)**						**-**	**24,856,275**	**865,567,475**

STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2015

(Euro)

	Balance at 31.12.2014	Changes in opening ba	Balance at 01.01.2015	Allocation of prior year results		Changes during the year								
							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 31.12.2015	Shareholders' equity at 31.12.2015
Share capital:														
a) ordinary shares	60,840,000		60,840,000											60,840,000
b) other shares	6,865,040	-	6,865,040	-	-	-	-	-	-	-	-	-	-	6,865,040.00
Share premium reserv e	16,145,088	-	16,145,088	-	-	-	-	-	-	-	-	-	-	16,145,088
Reserv es:														-
a) from profits	675,107,927	-	675,107,927	22,982,444		8,927,653						1,109,510		708,127,534
b) other	1,315,424	-	1,315,424	-	-	-	-	-	-	-	-	- 1,315,424	-	-
Valuation reserv es:	24,510,955	-	24,510,955			-							(1,887,823)	22,623,132
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for the perioc	32,986,005	-	32,986,005	(22,982,444)	(10,003,561)	-	-	-	-	-	-	-	37,444,929	37,444,929
Shareholders' equity	**817,770,439**	**-**	**817,770,439**	**-**	**(10,003,561)**	**8,927,653**	**-**	**-**	**-**	**-**	**-**	**(205,914)**	**35,557,106**	**852,045,723**

CASH FLOW STATEMENT

	31.12.2016	31.12.2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**94,121,319**	**143,421,410**
- interest received (+)	174,797,604	224,406,675
- interest paid (-)	(44,458,702)	(63,124,744)
- dividends and similar income (+)	32,140	
- net commission income (+/-)	99,816,193	111,624,604
- payroll costs (-)	(135,491,216)	(122,059,733)
- other costs (-)	(66,189,856)	(68,378,811)
- other revenues (+)	69,847,504	69,746,497
- taxation (-)	(4,232,348)	(8,793,078)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(318,538,644)**	**(196,868,593)**
- financial assets held for trading	(6,539,785)	414,592
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	40,683,866	(178,030,907)
- loans to customers	(332,715,580)	67,100,145
- due from banks: on demand	(127,691,905)	113,475,727
- due from banks: other receivables	75,085,033	(261,803,971)
- other assets	32,639,727	61,975,821
3. Cash generated (absorbed) by financial liabilities	**214,527,399**	**74,378,640**
- due to banks: on demand	(9,001,204)	(43,014,017)
- due to banks: other debts	209,686,471	9,613,180
- due to customers	467,838,347	502,515,335
- debt securities in issue	(412,846,379)	(335,082,984)
- due from banks: on demand	(310,167)	(420,651)
- financial liabilities designated at fair value through profit and loss	(6,676,679)	(658,801)
- other liabilities	(34,162,990)	(58,573,422)
Net cash generated/absorbed by operating activities (A)	**(9,889,926)**	**20,931,457**
B. INVESTING ACTIVITIES		
1. Cash generated by	**18,919,344**	**4,232,188**
- sale of equity investments	8,818,662	
- dividends collected on equity investments	10,100,682	4,133,497
- sale/redemption of financial assets held to maturity		
- sale of property, plant and equipment		98,691
- sale of intangible assets		
- sale of businesses		
2. Cash absorbed by	**(3,732,532)**	**(25,006,210)**
- purchase of equity investments		(19,227,492)
- purchase of financial assets held to maturity		
- purchase of property, plant and equipment	(2,637,908)	(4,620,734)
- purchase of intangible assets	(1,094,624)	(1,157,984)
- purchase of businesses		
Net cash generated/absorbed by investing activities (B)	**15,186,812**	**(20,774,022)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,239,523)	(10,003,561)
Net cash generated/absorbed by financing activities (C)	**(11,239,523)**	**(10,003,561)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(5,942,637)**	**(9,846,126)**

RECONCILIATION

Captions	31.12.2016	31.12.2015
Cash and cash equivalents at beginning of period	**27,408,982**	**33,788,451**
Net increase (decrease) in cash and cash equivalents	(5,942,637)	(9,846,126)
Cash and cash equivalents: effect of change in exchange rates	2,727,235	3,466,657
Cash and cash equivalents at end of period	**24,193,580**	**27,408,982**

Explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements of Banco di Desio e della Brianza are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2016 and endorsed by the European Commission.

Section 2 - Basis of preparation

The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.

For the preparation of the financial statements, reference was made to the Bank of Italy Circular 262 of 22 December 2005 as subsequently updated on 15 December 2015. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The 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 year.

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. The accounting policies are consistent with those used for the preparation of the financial statements of the previous year.

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

International accounting standards applicable from 2016

The following amendments approved by the European Commission on 18 December 2015 have become applicable from 1 January 2016:

Amendment to IAS 1

Presentation of financial statements (published by the IASB on 18 December 2014), which provides limited amendments to IAS 1 aimed at clarifying certain disclosure requirements, such as: Materiality and aggregation, Statement of financial position and statement of comprehensive income, Presentation of items of Other Comprehensive Income ("OCI"), Explanatory notes.

Amendment to IAS 27

Separate financial statements (published by the IASB on 12 August 2014) which introduces the option of using the equity method for the valuation of investments in subsidiaries, jointly controlled entities and associate in the separate financial statements of an entity.

International accounting standards endorsed at 31 December 2016 with application after 2016

IFRS 9 - Financial instruments

On 29 November 2016, EU Official Gazette L 323/1 published Commission Regulation (EU) 2016/2067 of 22 November 2016 on International Financial Reporting Standard 9.

The *International Accounting Standards Board (IASB)* had previously published *International Financial Reporting Standard (IFRS) 9 – Financial instruments* on 24 July 2014. This standard seeks to improve the disclosures made about financial instruments, in order to tackle the problems that emerged during the financial crisis. The adoption of IFRS 9 involves amendments to the following international accounting standards (IAS) 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19, and the interpretation of the Standing Interpretations Committee (SIC) 27, in order to ensure consistency among the various international accounting standards.

The new standard, which applies from 1 January 2018, introduces new criteria for the classification and measurement of financial assets and financial liabilities. Moreover, with reference to the impairment model, the new standard requires that the estimate of loan losses be based on the model of "expected losses" (as opposed to "incurred losses"), using information that has support and is available without unreasonable charges or efforts, including historical, current and future data. The standard establishes, in particular, that:

- the impairment model applies to all financial instruments that are not measured at fair value throughout profit or loss;
- the financial instruments subject to impairment testing are allocated to three classes (stages/buckets), each of which defines and measures impairment in a different way.

Lastly, the standard introduces a new hedge accounting model; the changes relate solely to general hedges and are closely tied to the decision of the Group to make use of the opt-in / opt-out option (being the ability to implement the new IFRS 9 for the management of specific hedges in combination with IAS 39 for the management of macro fair value hedges, rather than continue to apply IAS 39 for all types of hedge).

Section 3 – Subsequent events

Supervisory Review and Evaluation Process (SREP) 2016

Following completion of the Supervisory Review and Evaluation Process (SREP) in 2016, on 9 January 2017 the Bank of Italy notified Banco di Desio e della Brianza of its decision on the capital requirements of the Banco Desio Group, which must be applied at consolidated level from the first report on own funds filed after the notification date (i.e. 31 March 2017). Further information can be found in the Report on Operations, sections 3.2 "Significant events" and 7.4 "Shareholders' equity and capital adequacy".

Section 4 - Other aspects

Project for the implementation of IFRS 9 - Financial instruments

The Banco Desio Group has commenced a specific project to analyse the impact of the accounting standard and guide its implementation, in order to ensure regulatory compliance by the application date. Following approval from the Board of Directors of the Parent Company on 4 August 2016, a leading firm of consultants has been engaged to provide methodological support to the Banco Desio Group during the process of implementing the new standard.

A Steering Committee has been established, involving the Administration Department, the Risk Management Department, the Organisation and Systems Department and the "Business" Department, in order to:

- ensure the proper scaling of the Working Parties (WP),
- define guidelines and direct the activities to be carried out,
- validate the results and decide on matters that are significant for the project.

The project is organised into "classification and measurement" and "impairment" work areas and envisages the following phases:

- initial assessment and preliminary decisions (mainly accounting and model related);
- design of the target operating model and definition of the related IT impact;
- implementation, in terms of organisational and application development and impact analysis.

The assessment and design phases include various impact simulations (on the models used to determine macro write-downs, financial statements, own funds and supervisory parameters).

At this time, the assessment phase has essentially been completed and, in particular,

- with specific reference to the classification and measurement of financial instruments, has:
  - defined the scope of the financial instruments affected;
  - defined the methodology for the SPPI test *(Sole Payments of Principal and Interest)* and completed a qualitative analysis of the characteristics of the products and the related clauses associated with them;
  - identified the clauses that might result in failure to pass the SPPI test, with consequent obligation to measure the financial instruments at fair value through profit or loss;
  - for the loans portfolio, modular analyses are in progress, having regard for the significance of the loan products and their similarity
  - completed an SPPI test analysis for the securities portfolio;
- with specific reference to the impairment of financial instruments not measured at fair value through profit or loss:
  - identified the first set of criteria for allocating the financial instruments of the banks in the Banco Desio Group into three stages with different credit quality and, consequently, different methods for the determination of impairment;
  - defined the construction of an initial impairment model in order to carry out simulations for the calculation of expected loss.

At the same time, Cedacri S.p.A., the supplier of outsourced IT procedures, is carrying out a specific project together with its customer banks to align the outsourced processes and systems in conformity with the requirements of the new standard. In this regard, one of the objectives of the project launched by the Banco Desio Group is to help guide the methodological decisions made by the IT outsourcer, considering the appropriate "specifications" for compliance with the requirements of the standard.

Given the progress made by the project, the first simulations have not produced estimates that are deemed sufficiently reliable to quantify the effects on capital of the new standard, as they were made using certain assumptions and parameters that are merely approximations with respect to the final requirements and decisions that will have to be made. In addition, the simulations are also unreliable as they were made with reference to the situations existing at the reference dates, being 31 December 2015 or 30 June 2016, which do not reflect subsequent changes in the balance sheet aggregates analysed, due to changes in the economic situation and the related operational decisions made by management; accordingly, the simulations cannot be considered representative of the situation that may exist when the new standard comes into force.

Use of estimates and assumptions in preparing the financial statements

Preparing the financial statements also requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement.

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;
- 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 on balance sheet captions provides more detailed information on the assumptions and subjective assessments used in preparing the financial statements.

Contribution to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS)

The European directives governing the resolution mechanisms of banks belonging to the European Union and the functioning of the deposit guarantee schemes came into force during 2015. These involved in particular:

- Directive 2014/59/EU (the so-called "Bank Recovery and Resolution Directive" or BRRD) adopted by the national law with Legislative Decree 180 of 16 November 2015, defines the new resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by *ex ante* contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called "Deposit Guarantee Schemes Directive" or DGSD) adopted by the national law with Legislative Decree 30 of 15 February 2016, provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex-ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid by Banco di Desio e della Brianza have been charged to income statement caption "150 b) Other administrative costs", as indicated in the Bank of Italy communications dated 19 January 2016.

Comparability of financial statements

With regard to the comparability of the economic and financial information provided, it must be remembered that Banco di Desio e della Brianza contributed a line of business comprising 32 branches in Tuscany and Lazio to Banca Popolare di Spoleto, a subsidiary, with effect from 1 April 2015.

In addition, the carrying amounts of the investments held in Rovere Societé de Gestione S.A. and Istifid S.p.A. have been reclassified in the balance sheet at 31 December 2015 in accordance with IFRS 5.

Domestic tax group election

Banco di Desio e della Brianza and the Italian companies of the Banco Desio 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 financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012

A.2 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 principal market on the assessment date or, in the absence thereof, on the most advantageous market (*fair value level 1*).

Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by 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:

- a 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*).

Mutual funds that are traded in an active market are measured at the closing price observable on the principal market on the assessment date or, in the absence thereof, on the most advantageous market *(Level 1)*. Mutual funds 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 Mutual funds 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 Mutual funds 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 “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.

In the case of assets available for sale with fair value hedges, the change in fair value related to the risk being hedged is recognised in the income statement under "Net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument, while changes in fair value not related to the risk being hedged are recorded in equity to offset the valuation reserves.

In the presence of cash flow hedges of assets available for sale, the fair value changes are recorded under shareholders' equity; please refer to the section on "Hedging transactions" for a description of the gains and losses on the hedging instrument.

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 non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.

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 by applying the criteria laid down in the Lending Policies, 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.

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 valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.

The EBA standards have also introduced the definition of forborne exposures. Credit exposures are "forborne" when, due to the deterioration of the economic-financial condition of the debtor (financial difficulties), the original contractual conditions are amended or the loan is refinanced, in whole or in part. The exposures subject to forbearance may be classified among the categories of impaired loan (non-performing, unlikely to pay, past due and impaired past due) or as performing loans. The accounting policies for the assessment of forborne exposures and the related provisions follow the general criterion established in IAS 39.

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.

The fair value is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2).

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 may be:

- Fair Value Hedges (micro hedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);
- Cash-Flow Hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Measurement

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); with specific reference to OTC hedging derivatives, the model applied is the Credit Value Adjustment and Debit Value Adjustment.

A hedging transaction is defined as effective if the changes in fair value (or future 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.

Recognition of items affecting the income statement – Fair value hedges

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. This provision applies even when the hedged item is measured at cost.

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.

Recognition of items affecting the income statement – Cash-Flow Hedges

The gain or loss on the hedging instrument has be treated as follows:

- the share of the gain or loss defined as effective is recorded in equity as a contra-entry to the valuation reserves;
- the ineffective portion of the hedge is booked to the income statement.

In particular, equity has to include the lower of the total gain or loss on the hedging instrument from the start of it and the overall change in fair value (present value of expected cash flows) on the hedged element from the beginning of the hedge. Any remaining gain or loss on the hedging instrument or the ineffective portion is recognised in the income statement.

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. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Classification

This item includes investments in subsidiaries and associates, as defined in IFRS 10 and 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

Subsequent to initial recognition, investments in subsidiaries and associates are measured at cost.

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).

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.

Non-current assets and disposal groups held for sale

Recognition

Non-current assets and disposal groups held for sale are measured at the time of initial recognition at the lower of book value and fair value less costs to sell.

Classification

These captions include non-current assets and groups of assets held for sale, when the book value will be recovered principally through a sale transaction that is considered highly probable, rather than through continued use.

In accordance with IFRS 5, so-called "discontinued operations" (i.e. assets sold or held for sale) are also recognised, if they:

- represent a significant line of business or geographical area of operations;
- form part of a single coordinated plan to dispose of a significant separate line of business or geographical area of operations;
- involve a subsidiary acquired solely with a view to reselling it.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, non-current assets and disposal groups held for sale are valued at the lower of book value and fair value less costs to sell. The related income and expenses (net of taxes) are presented in the income statement under a separate item called "Profit (loss) after tax on non-current assets held for sale" when they relate to discontinued operations.

Derecognition

Non-current assets and groups of assets held for sale are eliminated from the balance sheet on disposal.

Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a manner consistent 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).

In this regard, it should be noted that Banco Desio, along with the other Italian Group companies, accede to the national consolidated 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. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement. 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 Banco Desio: 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, which include cashier's checks and checks issued by Banco.

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 the Bank, 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 in accordance with IAS 21 - *Effects of changes in foreign exchange rates* 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 are recognized in 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.

Accounting treatment of the extraordinary intragroup transactions in the financial statements

The non-recurring transactions carried out in the comparative period, being (i) the contribution by Banco di Desio of a bank branch line of business to Banca Popolare di Spoleto and (ii) the transfer of the Milan branch of Banca Popolare di Spoleto to Banco di Desio e della Brianza, with effect from 1 April 2015, were not specifically subject to the IAS/IFRS as they involved subsidiaries of the same shareholder.

Accordingly, the accounting treatment was determined with reference to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements".

As a consequence, since these non-recurring transactions were not considered to have a significant influence on the future cash flows of the net assets transferred, they were accounted for at book value and the difference with respect to the transaction values was recognised in equity.

A.3 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".

The Bank has not made any portfolio transfers during the reference period of this report.

A.4 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 2 and 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.

A.4.1 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.

Also worth noting is the application of the Credit Value Adjustment (CVA) model for OTC derivatives, in order to highlight the impact of the counterparty's credit quality, an intrinsic factor in the pricing of bonds, but not of derivatives. The method applied consists of determining the fair value by discounting the derivative's positive mark to market (MTM) over the residual life of the instrument using the weighted credit spread.

On the other hand, as regards OTC derivatives with a negative MTM, the model applied is the Debit Value Adjustment (DVA), with the aim of highlighting, for the Bank, the impact of its own creditworthiness. The model applies the same formula of discounting the CVA to the negative value (MTM) of the derivative including the credit spread of the Bank.

It should be noted that, in the application of both models (CVA and DVA) and for the purpose of determining the impact of the counterparty's credit quality, or the quality of its credit rating, account has been taken of the effect of reducing credit risk in the presence of collateralisation agreements (CSA).

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.

A.4.2 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, except for the below description.

A.4.3 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.

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	5,531	1,814	2,244	11	995	2,059
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,349,311	107,681	25,639	1,362,824	149,638	19,178
4. Hedging derivatives		262			1,859	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,354,842**	**109,757**	**27,883**	**1,362,835**	**152,492**	**21,237**
1. Financial liabilities held for trading			2,164			2,022
2. Financial liabilities designated at fair value through profit and loss		15,908			22,828	
3. Hedging derivatives		2,778			19,924	
Total		**18,686**	**2,164**		**42,752**	**2,022**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total financial assets measured at fair value (1.87% at 31 December 2016 compared with 1.38% in the previous year).

These investments consist of Euro 12,562 thousand of non-controlling interests classified as "Financial assets available for sale". Given the nature and, in any case, the insignificance of the amount, as in the case of minority investments carried at cost because updated current values are unavailable or cannot be estimated and the valuation of units in mutual funds applying the liquidity discount envisaged in the policy, the sensitivity analysis for this caption was carried out in relation to the quotas in Fondo Atlante, the asset deriving from the Voluntary Scheme support provided to CaRiCesena and the shares in Cedacri S.p.A.; considering an adjustment of 35% of the stock market multiples or the application of a liquidity discount of 20% or an increase of 100 bps in the cost of equity Ke, the analysis shows a reduction in the fair value of the level 3 "Financial assets available for sale" of about 6%.

At 31 December 2016, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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	**2,059**		**19,178**			
2. Increases	**2,244**		**11,224**			
2.1. Purchases			8,552			
2.2. Profits posted to:						
2.2.1. Income statement	2,244					
of which: capital gains	2,244					
2.2.2. Shareholders' equity			2,671			
2.3. Transfers from other levels						
2.4. Other increases			1			
3. Decreases	**2,059**		**4,763**			
3.1. Sales			1,245			
3.2. Redemptions						
3.3. Losses posted to:						
3.3.1. Income statement	2,059		1,860			
of which: capital losses	*2,059*		*1,860*			
3.3.2. Shareholders' equity			1,609			
3.4. Transfers to other levels						
3.5. Other decreases			49			
4. Closing balance	**2,244**		**25,639**			

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	**2,022**		
2. Increases	2,164		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	2,164		
- of which: capital losses	*2,164*		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	**2,022**		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,022		
- of which: capital gains	*2,022*		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**2,164**		

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity								
2. Due from banks	500,276			500,276	447,669			447,669
3. Loans to customers	6,247,053		3,392,018	3,112,540	5,977,834		2,989,337	3,231,456
4. Investment property	1,065			922	1,080			932
5. Non-current assets and disposal groups held for sale					1,403			1,403
Total	**6,748,394**		**3,392,018**	**3,613,738**	**6,427,986**		**2,989,337**	**3,681,460**
1. Due to banks	1,011,518			1,011,518	810,833			810,833
2. Due to customers	5,622,898			5,622,898	5,155,059			5,155,059
3. Debt securities in issue	1,210,559		1,196,605	10,194	1,625,687		1,571,195	52,775
4. Liabilities associated with assets held for sale								
Total	**7,844,975**		**1,196,605**	**6,644,610**	**7,591,579**		**1,571,195**	**6,018,667**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 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.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2016	31.12.2015
a) Cash	24,194	27,409
b) Demand deposits with central banks		
Total	**24,194**	**27,409**

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	3,220	1,279				
1.1 Structured securities	*1,867*					
1.2 Other debt securities	*1,353*	*1,279*				
2. Equity instruments	2,292					
3. Mutual funds						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**5,512**	**1,279**				
B. Derivatives:						
1. Financial derivatives:	19	535	2,244	11	995	2,059
1.1 for trading	*19*		*2,244*	*11*		*2,059*
1.2 connected with the fair value option		*535*			*995*	
1.3 other						
2. Credit derivatives						
2.1 for trading						
2.2 connected with the fair value option						
2.3 other						
Total B	**19**	**535**	**2,244**	**11**	**995**	**2,059**
Total (A+B)	**5,531**	**1,814**	**2,244**	**11**	**995**	**2,059**

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) positive value of derivatives held for trading;

c) positive value of derivatives and those linked to the fair value option;

The derivatives for which the fair value option has been exercised consist of derivatives operationally linked to bond issues for which the Bank exercised the fair value option.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

All financial instruments included in financial assets held for trading are measured at fair value.

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

Captions/Amounts	31.12.2016	31.12.2015
A. CASH ASSETS		
1. Debt securities	**4,499**	
a) Government and central banks	*1,353*	
b) Other public entities		
c) Banks	*1,279*	
d) Other issuers	*1,867*	
2. Equity instruments	**2,292**	
a) Banks	513	
b) Other issuers:	1,779	
- insurance companies	*141*	
- financial companies	*492*	
- non-financial companies	*1,146*	
- other		
3. Mutual funds		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**6,791**	
B. DERIVATIVES		
a) Banks	2,203	1,496
b) Customers	595	1,569
Total B	**2,798**	**3,065**
Total (A+B)	**9,589**	**3,065**

Section 4 - Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,286,805	107,681		1,295,061	149,638	
1.1 Structured securities		*7,701*			*7,651*	
1.2 Other debt securities	*1,286,805*	*99,980*		*1,295,061*	*141,987*	
2. Equity instruments			13,557			9,004
2.1 Valued at fair value			*10,963*			
2.2 Valued at cost			*2,594*			*9,004*
3. Mutual funds	62,506		12,082	67,763		10,174
4. Loans						
Total	**1,349,311**	**107,681**	**25,639**	**1,362,824**	**149,638**	**19,178**

Caption 40 "Financial assets available for sale" comprises:

- the bond portfolio and Mutual funds 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.

Mutual funds: breakdown by main category

	31.12.2016	31.12.2015
Equity funds	10,609	3,315
Bond funds	14,285	30,948
Flexible funds	37,613	33,501
Hedge funds	10	
Closed-ended real estate funds	9,441	10,173
Closed-ended securities funds	2,630	
Total	**74,588**	**77,937**

The table provides a breakdown of the main categories of investments made in mutual funds included in financial assets available for sale.

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

Captions/Amounts	31.12.2016	31.12.2015
1. Debt securities	**1,394,486**	**1,444,699**
a) Government and central banks	1,286,805	1,366,877
b) Other public entities		
c) Banks	93,195	72,872
d) Other issuers	14,486	4,950
2. Equity instruments	**13,557**	**9,004**
a) Banks	995	
b) Other issuers:	12,562	9,004
- *insurance companies*		
- *financial companies*	*1,936*	*1,500*
- *non-financial companies*	*9,996*	*7,324*
- *other*	*630*	*180*
3. Mutual funds	**74,588**	**77,937**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,482,631**	**1,531,640**

4.3 Financial assets available for sale with specific (or "micro") hedges

Captions/Amounts	31.12.2016	31.12.2015
1. Financial assets with specific fair value hedges		**121,479**
a) interest rate risk		121,479
b) exchange rate risk		
c) credit risk		
d) other risks		
2. Financial assets with specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total		**121,479**

Fair value specific hedges refer to the hedging of the interest rate risk on government bonds with a coupon index-linked to inflation.

Impairment tests of financial assets available for sale

As required by the accounting standards IAS 39, at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable.

The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of "Part A - Accounting policies" of these explanatory notes.

Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31.12.2016				31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**78,591**			78,591	**97,807**			97,807
1. Restricted deposits								
2. Reserve requirement	78,591				97,807			
3. Repurchase agreements								
4. Other								
B. Due from banks	**421,685**				**349,862**			
1. Loans	421,685			421,685	349,862			349,862
1.1 Current accounts and	185,079				57,387			
1.2. Restricted deposits	10,195				71,105			
1.3 Other loans:	226,411				221,370			
- Repurchase agreements	222,503				220,230			
- Finance leases								
- Other	3,908				1,140			
2. Debt securities								
2.1 Structured securities								
2.2 Other debt securities								
Total	**500,276**			**500,276**	**447,669**			**447,669**

Key:

FV = fair value

BV = book value

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.

The Bank's commitment to maintain the reserve requirement, also on behalf of its subsidiary Banca Popolare di Spoleto following the authorisation given by the Bank of Italy in 2015, amounts to Euro 87.5 million (versus Euro 85.3 million last year) of which Euro 55.3 million by Banco Desio and Euro 32.2 million by Banca Popolare di Spoleto S.p.A.

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

Amounts due from the subsidiary Banca Popolare di Spoleto amount to Euro 399,730 thousand at the end of the year (Euro 222,926 thousand at the end of last year), of which Euro 222,503 thousand relates to repurchase agreements, Euro 175,010 thousand to current accounts and demand deposits and Euro 2,217 thousand to restricted deposits.

The most significant item included in the "Other loans – Other" caption relates to the measurement of the portfolio risk on discount transactions, amounting to Euro 2,471 thousand (Euro 1,110 thousand at the end of the prior year).

6.2 Due from banks with specific hedges

At the date of the financial statements there are no amounts due from banks with specific hedge.

6.3 Finance leases

Banco Desio has no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2016						31.12.2015					
	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	5,797,150		449,903		3,392,018	3,112,540	5,514,959		462,874		2,989,337	3,231,456
1. Current accounts	1,456,312		107,178				1,494,391		119,215			
2. Repurchase agreements	211,681											
3. Mortgage loans	2,980,294		319,362				2,853,851		314,029			
4. Credit cards, personal loans and assignments of one-fifth of salary	15,323		1,109				30,863		1,601			
5. Finance leases	284,550		17,001				353,760		24,318			
6. Factoring	35,236		290				27,051		355			
7. Other loans	813,754		4,963				755,043		3,356			
Debt securities												
8. Structured securities												
9. Other debt securities												
Total	**5,797,150**		**449,903**		**3,392,018**	**3,112,540**	**5,514,959**		**462,874**		**2,989,337**	**3,231,456**

Gross loans amount to Euro 6,662,567 thousand (Euro 6,426,152 thousand at the prior year end), while total write-downs amount to Euro 415,514 thousand (Euro 448,318 thousand at the prior year end).

As regards non-performing loans, in addition to the disclosures made in the report on operations, reference should be made to "Section E" of these explanatory notes.

"Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,169,387 thousand.

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 418,190 thousand; they all relate to the subsidiary Fides S.p.A. (Euro 380,106 thousand last year).

This caption includes the interest accrued at 31 December 2016 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Considering current conditions in the loan market, the fair value of non-performing loans might not represent their final exit price, as there is still a certain amount of chance associated with the elements used for the determination of price by potential third-party purchasers.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2016			31.12.2015		
	Performing loans	Purchased	Other	Performing loans	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:	**5,797,150**		**449,903**	**5,514,959**		**462,874**
a) Governments						
b) Other public entities						
c) Other parties	5,797,150		449,903	5,514,959		462,874
- *non-financial companies*	*3,767,281*		*321,003*	*3,770,421*		*337,259*
- *financial companies*	*729,629*		*784*	*475,416*		*787*
- *insurance companies*				*1,346*		
- *other*	*1,300,240*		*128,116*	*1,267,776*		*124,828*
Total	**5,797,150**		**449,903**	**5,514,959**		**462,874**

7.3 Loans to customers: with specific hedge

At the date reporting date there are no loans to customers with specific hedge**7.4 Finance leases**

Reconciliation between gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor.

Type of transaction	31.12.2016				31.12.2015			
	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	355,877	(59,781)	296,096	54,505	450,642	(77,400)	373,242	59,307
- of which leaseback agreements	27,982	(5,184)	22,798	5,533	28,717	(5,452)	23,265	4,667
Total	**355,877**	**(59,781)**	**296,096**	**54,505**	**450,642**	**(77,400)**	**373,242**	**59,307**

Falling due	31.12.2016 Gross investment	31.12.2016 Deferred profit	31.12.2016 Net investment	31.12.2015 Gross investment	31.12.2015 Deferred profit	31.12.2015 Net investment
- Within one year	10,151	(194)	9,957	8,992	(164)	8,828
- Between one and five years	92,926	(6,108)	86,818	129,335	(8,671)	120,664
- Beyond five years	252,800	(53,479)	199,321	312,315	(68,566)	243,749
Total	**355,877**	**(59,781)**	**296,096**	**450,642**	**(77,401)**	**373,241**

The net investment corresponds to the outstanding capital element of lease obligations at the year end.

Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	31.12.2016				31.12.2015			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives		**262**		**10,000**		**1,859**		**109,617**
1) Fair value		262		10,000		1,407		59,617
2) Cash flows						452		50,000
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**262**		**10,000**		**1,859**		**109,617**

Key

NV = notional value

L1 = Level 1
L2 = Level 2
L3 = Level 3

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

8.2 Hedging derivatives: breakdown by hedge portfolios and by type of hedge

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities	262								
2. Portfolio									
Total liabilities	**262**								
1. Expected transactions									
2. Financial assets and liabilities portfolio									

The specific fair value hedge in connection with financial liabilities relates to hedges in place for bonds issued by the Bank.

Retrospective and prospective assessments performed during the year in compliance with the requirements of IAS 39 have confirmed the effectiveness of the hedging reports.

Section 10 - Equity investments - caption 100

10.1 Equity investments: details of holdings

Name	Registered office	Operational headquarters	% Held %	Voting rights %
A. Subsidiaries				
Fides S.p.A.	Rome	Rome	100.000	100.000
Banca Popolare di Spoleto S.p.A.	Spoleto	Spoleto	81.701	81.701

10.2 Significant equity investments: book value, fair value and dividends received

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.2 of the Banco Desio Group's consolidated financial statements.

10.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.3 of the Banco Desio Group's consolidated financial statements.

Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details of impairment testing of equity investments held at 31 December 2016, are provided below.

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 selling expenses or exchange value) of the investment.

The recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

Impairment testing has thus been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

   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 used is the same as the 2017-2021 Business Plan prepared by the management and approved by the Directors from the 2017 budget, with projections of future results extended to 2021 to include the changes in the economic and financial scenario compared with the previous year.

   The maintenance of a five-year forecasting horizon is considered consistent with the current economic-financial macroeconomic situation, in order to reduce the distortions that would be attributable to the use of a shorter period. The latter would be heavily conditioned by a complex systemic situation because of the current uncertain outlook and the lasting effects of the economic and financial crisis on the money markets and interest rates. The longer period is also appropriate because it tends to normalise the impact of extraordinary events, thus making it possible to focus better on the true medium/long-term potential of the tested entity.

Cash flows

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.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

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 RWA/Gross premiums	Ke	g	Plan flows	Capital ratios
Banca Popolare di Spoleto Spa	DDM	Budget 2017 and forecast to 2021 (*)	0.92%	8.38%	1.50%	Net results	CET 1 8.50% (**)
Fides Spa	DDM	Budget 2017 and forecast to 2021 (***)	9.99%	9.88%	1.50%	Net results	CET 1 8.50% (**)

(*) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors of BPS on 20 December 2016 and ratified by the Board of Directors of the Parent Bank on 22 December 2016, and the projection of results until 2021 by management
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)
(***) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors of the Parent Bank on 22 December 2016, in its role of management and coordination, and then by the Board of Directors of Fides on 17 January 2017, and the projection of results until 2021 by management.

As a result of the impairment testing performed, no write-down was needed of the aforementioned equity investments.

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	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banca Popolare di Spoleto Spa	13.15%	115
Fides Spa	52.12%	Over 1,000

10.4 Not significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.4 of the Banco Desio Group's consolidated financial statements.

10.5 Equity investments: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**317,809**	**214,379**
B. Increases		**108,495**
B.1 Purchases		100,628
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes		7,867
C. Decreases	**53,244**	**5,066**
C.1 Sales	7,416	
C.2 Write-downs		
C.3 Other changes	45,828	5,066
D. Closing balance	**264,565**	**317,809**
E. Total revaluations		
F. Total write-downs		

Details of the main changes in the year are provided below.

Caption "C.1 Sales" shows the sale of 4,054,001 of the shares of Chiara Assicurazioni S.p.A. (32.66%) and Helvetia.

Caption "C.3 Other changes" reflects the elimination of the carrying amount of the investment in Credito Privato Commerciale S.A. in liquidation and the simultaneous recognition in caption "150 – Other assets" of the amount due from the liquidators that is deemed certain and recoverable.

LIST OF EQUITY INVESTMENTS

List of investments in subsidiaries (Caption 100. Equity investments)

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value*	*Book value*
Banca Popolare di Spoleto S.p.A.	128,240,177	81.701	-	232,371,200
Fides S.p.A.	25,000,000	100.000	25,000,000	32,193,729
Total Caption 100. Equity investments				**264,564,929**

List of other equity investments (Caption 40. Financial assets available for sale)

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value*	*Book value*
Cedacri S.p.A.	898	7.122	898,000	9,967,800
Be.Ve.Re.Co. S.r.l.	*30,000*	*5.825*	*15,000*	*15,494*
S.S.B. Società Servizi Bancari S.p.A.	*51,491*	*0.030*	*6,694*	*3,640*
Consorzio Bancario S.I.R. S.p.A.	*882,939*	*0.057*	*883*	*274*
S.W.I.F.T. - Brussels	*10*	*0.009*	*1,250*	*5,572*
Sviluppo Brianza	*1*	*0.698*	*2,462*	*2,613*
AcomeA sgr S.p.A.	*50,000*	*8.658*	*500,000*	*1,451,000*
Sviluppo Como - ComoNExt Spa	*150,000*	*1.779*	*150,000*	*150,000*
Unione Fiduciaria	*15,050*	*1.394*	*82,775*	*485,212*
Baires Produzioni s.r.l.	-	-	-	*480,000*
Total				**12,561,604**

10.8 Significant restrictions

There are no significant restrictions (e.g. legal, contractual or regulatory restrictions) on the Parent Company's ability to access the assets, or to use them, and to pay off the liabilities of the Group, such as restrictions on the ability of the Parent Company or its subsidiaries to transfer cash or limitations on transfers of funds in the form of dividends, loans or advances granted to (or from) other Group companies.

Section 11 - Property, plant and equipment - caption 110

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

Assets/Amounts	31.12.2016	31.12.2015
1 Own assets	**134,154**	**136,491**
a) land	41,800	41,800
b) property	80,246	81,807
c) furniture	3,494	3,975
d) electronic systems	2,848	3,268
e) other	5,766	5,641
2 Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**134,154**	**136,491**

As at the year end, there were no tangible fixed assets being purchased under finance leases.

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,
- terminals and PCs, mixed use vehicles: 4 years.

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

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

11.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,065**			**922**	**1,080**			**932**
a) land	448			378	448			378
b) property	617			544	632			554
2. Assets purchased under finance leases								
a) land								
b) property								
Total	**1,065**			**922**	**1,080**			**932**

The book value reflects the capitalisation of construction and/or renovation costs, in addition to taxes, particularly on new properties acquired, factors that the market value do not fully reflect.

11.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

11.4 Investment property: breakdown of assets carried at fair value

As at the respective balance sheet dates, the Bank did not have any investment property measured at fair value.

11.5 Property, plant and equipment for business purposes: change of the year

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**41,800**	**101,474**	**28,798**	**22,075**	**34,378**	**228,525**
A.1 Net total write-downs		19,668	24,823	18,807	28,737	92,034
A.2 Net opening balance	**41,800**	**81,806**	**3,975**	**3,268**	**5,642**	**136,491**
B. Increases		**474**	**354**	**2,001**	**1,204**	**4,033**
B.1 Purchases			354	660	1,149	2,163
B.2 Capitalised improvement costs		474				474
B.3 Write-backs						
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes				1,341	55	1,396
C. Decreases		**2,034**	**835**	**2,421**	**1,080**	**6,370**
C.1 Sales				1,341	55	1,396
C.2 Depreciation		2,034	835	1,080	1,025	4,974
C.3 Impairment write-downs booked to:						
- a) shareholders' equity						
- b) income statement						
C.4 Decreases in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
- a) investment property, plant and equipment						
- b) assets held for sale						
C.7 Other changes						
D. Net closing balance	**41,800**	**80,246**	**3,494**	**2,848**	**5,766**	**134,154**
D.1 Net total write-downs		21,703	25,658	18,545	29,753	95,659
D.2 Gross closing balance	**41,800**	**101,949**	**29,152**	**21,393**	**35,519**	**229,813**
E. Measurement at cost						

The sub-captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.

From the sale of property, plant and equipment, as indicated by the sub-caption "C.1 Sales", realised gains of Euro 2 thousand have been recognised in the income statement under caption 190 "Other operating charges/income".

The caption "B.7 Other changes" relates to the reversal of accumulated depreciation pertaining to assets disposed of or transferred to another category.

11.6 Investment property: changes in the year

	Total	
	Land	**Buildings**
A. Opening balance	**448**	**632**
B. Increases		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes		
C. Decreases		**15**
C.1 Sales		
C.2 Depreciation		15
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		
D. Closing balance	**448**	**617**
E. Measurement at fair value		

11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

Commitments to purchase property, plant and equipment amount to about Euro 1.4 million at 31 December 2016. They related to the purchase of a property in Como in order to strengthen its territorial presence in that location.

FREEHOLD PROPERTY

(excluding property under finance lease)

Assets used in business

Location of the property		Surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
ALBINO	Viale Libertà 23/25	332	678
ARCORE	Via Casati, 7	362	543
BAREGGIO	Via Falcone, 14	200	271
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	802
BOLOGNA	Porta Santo Stefano, 3	1,223	8,615
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	981
BOVISIO MASCIAGO	Via Garibaldi, 8	382	413
BRESCIA	Via Verdi, 1	530	1,794
BRESCIA	1st floor Via Verdi, 1	190	1,069
BRIOSCO	Via Trieste, 14	430	401
BRUGHERIO	Viale Lombardia, 216/218	425	1,246
BUSTO ARSIZIO	Via Volta, 1	456	980
CADORAGO	Via Mameli, 5	187	289
CANTU'	Via Manzoni, 41	1,749	2,159
CARATE BRIANZA	Via Azimonti, 2	773	951
CARUGATE	Via XX Settembre, 8	574	601
CARUGO	Via Cavour, 2	252	371
CASTELLANZA	Corso Matteotti, 18	337	409
CESANO MADERNO	Corso Roma, 15	692	854
CHIAVARI	Piazza Matteotti	68	991
CINISELLO BALSAMO	Via Frova, 1	729	888
CINISELLO BALSAMO	Piazza Gramsci	26	15
COLOGNO MONZESE	Via Cavallotti, 10	128	46
COMO (1)	Via Garibaldi, angolo Via Varese	548	128
CUSANO MILANINO	Viale Matteotti, 39	522	666
DESIO	Piazza Conciliazione, 1	1,694	2,037
DESIO	Via Rovagnati, 1	20,032	28,743
DESIO	Via Volta, 96	238	577
GARBAGNATE	Via Varese, 1	400	1,173
GIUSSANO	Via Addolorata, 5	728	907
LECCO	Via Volta, ang. Via Montello	615	1,666
LEGNANO	Corso Italia, 8	1,545	2,621
LISSONE	Via San Carlo, 23	583	1,313
MEDA	Via Indipendenza, 60	678	782
MILAN	Via della Posta, 8	1,912	7,666
MILAN	Via Foppa	223	777
MILAN	Via Menotti	825	2,889
MILAN	Via Moscova, 30/32	668	5,206
MILAN	Via Trau', 3	422	2,031
MILAN	Piazza De Angeli, 7/9	385	2,149
MISINTO	Piazza Mosca, 3	330	354
MODENA	Via Saragozza, 130	720	4,168
MONZA	Via Manzoni, 37	397	716
MONZA	Corso Milano, 47	453	858
MONZA	Via Rota, 66	330	534
MONZA	Piazza S. Paolo, 5	496	3,654

Location of the property		Surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
NOVA MILANESE	Piazza Marconi, 5	526	663
NOVATE MILANESE	Via Matteotti, 7	462	661
ORIGGIO	Largo Croce, 6	574	745
PADUA	Via Matteotti, 20	550	3,408
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	639
PIACENZA	Via Vittorio Veneto,67/a	486	1,404
REGGIO EMILIA	Via Terrachini,1 ang. Via Risorgimento	713	2,588
RENATE	Piazza don Zanzi, 2	429	630
RHO	Via Martiri Libertà, 3	410	694
RUBIERA	Via Emilia Ovest, 7	310	1,358
SARONNO	Via Rimembranze, 42	530	740
SEGRATE	Via Cassanese, 200	170	285
SEREGNO	Via Trabattoni, 40	1,233	2,037
SESTO SAN GIOVANNI	Piazza Oldrini	377	763
SEVESO	Via Manzoni, 9	382	1,050
SOVICO	Via Frette, 10	673	1,046
TURIN	Via Filadelfia, 136	370	1,671
VAREDO	Via Umberto I°, 123	501	510
VEDUGGIO	Via Vittorio Veneto, 51	257	235
VERANO BRIANZA	Via Preda, 17	322	379
VERANO BRIANZA	Via Furlanelli, 3	790	684
VIGEVANO	Via Decembrio, 21	480	1,951
VIMERCATE	Via Milano, 6	338	923
Sub total		**57,102**	**122,046**
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	1,059
Sub total		**220**	**1,065**
Total		**57,322**	**123,111**

(1) This amount relates to the fitting out costs incurred after signature of the preliminary contract for the purchase of the property.

Table of revalued assets recognised in the financial statements
(pursuant to art. 10 of Law no. 72 of 19/3/1983)

(amounts in Euro)

	Revaluations in line with inflation			Revaluations to reflect change in value		
	Law 576/75	**Law 72/83**	**Law 413/91**	**Merger deficit**	**Voluntary revaluations**	**TOTAL**
DESIO, via Rovagnati		937,369	6,844,273			7,781,642
CINISELLO, P.zza Gramsci			1,173			1,173
CUSANO M.NO, Via Matteotti	10,170	25,483	19,944		12,925	68,522
CANTU', Via Manzoni		22,884	185,972	1,321,713		1,530,569
CARUGATE, Via XX Settembre			355		4,132	4,487
MILAN, Via della Posta			189,958		51,645	241,603
NOVATE M.SE, Via Matteotti			22,022	170,257		192,279
GIUSSANO, Via dell'Addolorata			26,067			26,067
MEDA, Via Indipendenza			51,616			51,616
MONZA, Corso Milano			227,521			227,521
BOVISIO, Via Garibaldi			26,357			26,357
PADERNO DUGNANO, Via Casati			24,339			24,339
LEGNANO, Corso Garibaldi			176,676			176,676
SOVICO, Via G. da Sovico			62,703			62,703
Total	**10,170**	**985,736**	**7,858,976**	**1,491,970**	**68,702**	**10,415,554**

Section 12 - Intangible assets - caption 120

12.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2016		31.12.2015	
	Limited duration	**Unlimited duration**	**Limited duration**	**Unlimited duration**
A.1 Goodwill		1,729		1,729
A.2 Other intangible assets	1,509		1,843	
A.2.1 Carried at cost:	1,509		1,843	
a) Intangible assets generated internally				
b) Other assets	1,509		1,843	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	**1,509**	**1,729**	**1,843**	**1,729**

The intangible assets of the Bank are valued at cost.

The goodwill recorded in the financial statements has an indefinite useful life and is not amortised on a straight-line basis, but subjected to impairment testing at least once a year and, particularly, at the year end reporting date or, in any case, whenever circumstances arise that suggest that there may be impairment (see the section below on the "Impairment testing of goodwill").

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 four years and for application software it is four or five years, based on the useful life specified within the asset category.

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, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2016.

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 CGU.

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted for the legal entity Banco di Desio e della Brianza Spa 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 the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" ("equity value" for banks and financial intermediaries).

   <u>"Explicit" time period for the determination of future cash flows</u>

   The time horizon used is the same as the 2017-2021 Business Plan prepared by the management and approved by the Directors from the 2017 budget, with projections of future results extended to 2021 to include the changes in the economic and financial scenario compared with the previous year.

The maintenance of a five-year forecasting horizon is considered consistent with the current economic-financial macroeconomic situation, in order to reduce the distortions that would be attributable to the use of a shorter period. The latter would be heavily conditioned by a complex systemic situation because of the current uncertain outlook and the lasting effects of the economic and financial crisis on the money markets and interest rates. The longer period is also appropriate because it tends to normalise the impact of extraordinary events, thus making it possible to focus better on the true medium/long-term potential of the tested entity.

Cash flows

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.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

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 CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, 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.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	Budget 2017 and forecast to 2021 (*)	0.09%	8.38%	1.50%	Net results	CET 1 8.50% (**)

(*) Considering the change in forecast cash flows, the 2017 budget approved by the Board of Directors on 22 December 2016, and the projection of results until 2021 by management.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no write-down was needed of the aforementioned goodwill.

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 CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

CGU	**% decrease in net future results (RN)**	**Increase in p.p. of discount rate used for future cash flows (FCFE)**
Banco di Desio e della Brianza Spa	29.97%	349

12.2 Intangible assets: changes in the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		LIM	UNLIM	LIM	UNLIM	
A. Gross opening balance	**3,458**			**7,632**		**11,090**
A.1 Net total write-downs	1,729			5,789		7,517
A.2 Net opening balance	**1,729**			**1,843**		**3,572**
B. Increases				**1,094**		**1,094**
B.1 Purchases				1,094		1,094
B.2 Increases in internally generated intangible assets						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				**1,428**		**1,428**
C.1 Sales						
C.2 Write-downs				1,428		1,428
- Amortisation				1,428		1,428
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes						
D. Net closing balance	**1,729**			**1,509**		**3,238**
D.1 Total net write-downs	1,729			7,217		8,946
E. Gross closing balance	**3,458**			**8,726**		**12,184**
F. Measurement at cost						

Key
LIM: limited duration
UNLIM: unlimited duration

12.3 Other information

At year-end there are no commitments to purchase intangible assets.

Section 13 - Tax assets and liabilities - Asset caption 130 and Liability caption 80

13.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2016	31.12.2015
A) With contra-entry to the income statement:				
Tax deductible goodwill	2,482	503	2,985	3,204
Write-down of loans to customers	88,487	11,211	99,698	104,946
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	1		1	9
Statutory depreciation of property, plant and equipment	122		122	81
Provision for guarantees and commitments and country risk	444		444	295
Provisions for personnel costs	6,634	1,179	7,813	5,708
Provision for lawsuits	2,832		2,832	2,789
Provision for claw-backs	443	90	533	672
Provision for sundry charges	231		231	322
Tax provision for termination indemnities	353		353	309
Other general expenses deductible in the following year		200	200	67
Other		1	1	
Total A	**102,335**	**13,184**	**115,519**	**118,705**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	73		73	
Write-down of securities classified as AFS	3,986	813	4,799	2,261
Other	970	196	1,166	140
Total B	**5,029**	**1,009**	**6,038**	**2,401**
Total (A+B)	**107,364**	**14,193**	**121,557**	**121,106**

Probability test on deferred taxes

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 102,255 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative. Despite the lack of obligation to pay, on 28 July 2016, Banco di Desio e della Brianza S.p.A., as the tax consolidating company, nevertheless exercised the option for all companies participating in the tax consolidation regime, in order to maintain the possibility of transforming such deferred tax assets.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Bank and the related taxable income forecast in the business plan to 2021, as updated following approval of the budget for 2017. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2016	31.12.2015
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,692	871	7,563	7,566
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	475	96	571	572
Tax amortisation of deferred charges (software)	2	5	7	7
Tax provision as per art. 106, paragraph 3	20		20	20
Other	1,452	56	1,508	1,757
Total A	**8,641**	**1,043**	**9,684**	**9,937**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	128	26	154	31
Revaluation of AFS securities	1,088	220	1,308	2,303
Revaluation of equity investments	43	173	216	30
Tax provision for termination indemnities				51
Total B	**1,259**	**419**	**1,678**	**2,415**
Total (A+B)	**9,900**	**1,462**	**11,362**	**12,352**

13.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2016	31.12.2015
1. Opening balance	**118,705**	**109,573**
2. Increases	**6,647**	**14,210**
2.1 Deferred tax assets recognised during the year	6,563	14,075
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	6,563	14,075
2.2 New taxes or increases in tax rates		
2.3 Other increases	84	135
of which: business combinations		1
3. Decreases	**9,833**	**5,078**
3.1 Deferred tax assets cancelled in the year	9,782	3,170
a) reversals	9,782	3,170
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	51	1,908
3.2 Conversion to tax credits as per L. 214/2011		
b) Other	51	1,908
of which: business combinations		1,908
4. Closing balance	**115,519**	**118,705**

The deferred tax assets recognised during the year mainly comprised:

- Euro 5,590 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 535 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

Deferred tax assets cancelled in the year are essentially due to:

- for Euro 5,247 thousand to the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 4,228 thousand relating to the use of taxed provisions.

The "3.3 Other decreases" sub-caption relates to the elimination of deferred tax assets following the recalculations made when presenting the 2015 tax return.

13.3.1 Change in deferred tax assets as per L. 214/2011 (as a contra-entry of the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**107,643**	**100,579**
2. Increases		**9,076**
of which: business combinations		
3. Decreases	**5,388**	**2,012**
3.1 Reversals	5,388	141
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		1,871
of which: business combinations		1,871
4. Closing balance	**102,255**	**107,643**

"3.1 Reversals" refers to:

- for Euro 5,247 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

13.4 Change in deferred tax liabilities (as a contra-entry of the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**9,937**	**10.880**
2. Increases	**520**	**365**
2.1 Deferred tax liabilities recognised during the year	376	365
a) relating to prior years		
b) due to changes in accounting policies		
c) other	376	365
2.2 New taxes or increases in tax rates		
2.3 Other increases	144	
3. Decreases	**773**	**1,308**
3.1 Deferred tax liabilities cancelled during the year	771	1,308
a) reversals	771	1,308
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	2	
4. Closing balance	**9,684**	**9,937**

The deferred tax liabilities recognised during the year mainly comprised:

- Euro 329 thousand on the voluntary contribution to the Interbank Deposit Protection Fund;
- Euro 44 thousand on dividends for the year that have not yet been collected.

The caption "2.3 Other increases" relates to the recognition of a deferred tax liabilities as a result of the recalculation, made for the purpose of the tax return for the year 2015.

Deferred tax liabilities cancelled during the year are attributable:

- for Euro 565 thousand to the share of capital gains realised on financial assets in 2013, 2014 and 2015, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act);
- for Euro 96 thousand to the release recorded on recalculation of the Irap deduction from Ires in relation to the payroll costs incurred in prior years

13.5 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**2,401**	**1,077**
2. Increases	**4,971**	**1,832**
2.1 Deferred tax assets recognised during the year	4,971	1,684
a) relating to prior years		
b) due to changes in accounting policies		
c) other	4,971	1,684
2.2 New taxes or increases in tax rates		
2.3 Other increases		148
3. Decreases	**1,334**	**508**
3.1 Deferred tax assets cancelled in the year	1,334	508
a) reversals	1,334	508
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**6,038**	**2,401**

Deferred tax assets recognised during the year are attributable to:

- for Euro 3,863 thousand to the measurement of securities classified as Financial assets available for sale;
- for Euro 912 thousand to the change in the reserve for cash-flow hedges;
- for Euro 73 thousand to the actuarial measurement of the Provision for termination indemnities.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as Financial assets available for sale.

13.6 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**2,414**	**2,252**
2. Increases	**1,281**	**2,006**
2.1 Deferred tax liabilities recognised during the year	1,281	2,006
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,281	2,006
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**2,017**	**1,844**
3.1 Deferred tax liabilities cancelled during the year	2,017	1,844
a) reversals	2,017	1,844
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,678**	**2,414**

The deferred tax liabilities both recognised and derecognised during the year mainly related to the measurement of securities classified as Financial assets available for sale.

13.7 Other information

Current tax assets

Captions	31.12.2016	31.12.2015
Ires	12,342	12,502
Irap	7,876	8,099
Total	**20,218**	**20,601**

Section 14 - Non-current assets and disposal groups held for sale and associated liabilities - Asset caption 140 and Liability caption 90

14.1 Non-current assets and disposal groups held for sale: breakdown by type

	31.12.2016	31.12.2015
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		1,403
A.3 Property, plant and equipment		
A.4 Intangible assets		
A.5 Other non-current assets		
Total A		**1,403**
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		1,403
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value through profit and loss		
B.3 Financial assets available for sale		
B.4 Financial assets held to maturity		
B.5 Due from banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Property, plant and equipment		
B.9 Intangible assets		
B.10 Other assets		
Total B		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total C		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
D. Liabilities associated with groups of assets held for sale		
D.1 Due to banks		
D.2 Due to customers		
D.3 Debt securities in issue		
D.4 Financial liabilities held for trading		
D.5 Financial liabilities designated at fair value through profit and loss		
D.6 Provisions		
D.7 Other liabilities		
Total D		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		

The table provides information about non-current assets and disposal groups held for sale and associated liabilities, reclassified under asset caption 140 and liability caption 90 in accordance with IFRS 5.

The balance for the comparative period recorded in asset caption 140 relates to the carrying amount of the investments held in Rovere Société de Gestion S.A. and Istifid S.p.A., for which the Board of Directors had adopted specific resolutions approving their future disposal.

14.2 Other information

In the comparative period, these equity investments were classified as non-current assets and were measured at purchase cost. Both equity investments represented non-current assets held for sale, but did not represent major independent lines of business; accordingly, their results were not reclassified to the "Profit (loss) on non-current assets held for sale" caption.

Section 15 - Other assets – caption 150

15.1 Other assets: breakdown

	31.12.2016	31.12.2015
Tax credits - capital	7,264	7,241
Amounts recoverable from the tax authorities for advances paid	31,924	39,397
Cheques negotiated to be cleared	13,667	15,751
Invoices issued to be collected	296	299
Debtors for securities and coupons to be collected by third parties	12	
Items being processed and in transit with branches	16,241	9,111
Currency spreads on portfolio transactions	66	188
Investments of the supplementary fund for termination indemnities	344	362
Leasehold improvement expenditure	10,656	11,957
Accrued income and prepaid expenses	644	605
Other items	35,967	18,276
Total	**117,081**	**103,187**

The "Tax credits - capital" caption mainly relates to the reimbursement requested by the Bank in 2012 regarding the deductibility from Ires and of the Irap due on the payroll costs of employees and similar personnel.

"Amounts recoverable from the tax authorities for advances paid" relate to payments of tax advances that exceed the tax liability as per the applicable tax return; in detail, they refer to:

- a receivable for withholding tax on interest on deposits and current accounts of Euro 2,777 thousand;
- a receivable for virtual stamp duty of Euro 22,203 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 6,944 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include cheques being processed, Euro 2,898 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 2,449 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 5,798 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new 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. New investments of Euro 194 thousand have been made during the year; the related amortisation charge, which is recognised in the caption "190 – Other operating charges", amounts to Euro 1,495 thousand.

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

The main sub-captions included in the caption "Other items" are:

- Euro 11,806 thousand due from the liquidator of CPC S.A. in liquidation and Euro 579 thousand due from the liquidator of Rovere in liquidation; these receivables are of a specific nature and are recoverable for the excess over the amount allocated to the provision for risks and charges in respect of the charges estimated for cancellation of the company (Euro 950 thousand for CPC S.A. in liquidation and Euro 29 thousand for Rovere in liquidation);
- Euro 3,205 thousand recognised following the authorisation given to distribute the profit reserves of Cedacri S.p.A.;
- commissions and taxes awaiting collection for Euro 11,193 thousand;
- invoices to be issued for Euro 891 thousand;
- Euro 2,605 thousand due following currency transactions;
- Euro 3,292 thousand due from Banca Popolare di Spoleto for services provided.

LIABILITIES

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	31.12.2016	31.12.2015
1. Due to central banks	**800,000**	**551,009**
2. Due to banks	**211,518**	**259,824**
2.1 Current accounts and demand deposits	47,392	56,393
2.2 Restricted deposits	38,919	42,513
2.3 Loans	125,207	160,918
2.3.1 Repurchase agreements		
2.3.2 Other	125,207	160,918
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables		
Total	**1,011,518**	**810,833**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**1,011,518**	**810,833**
Total fair value	**1,011,518**	**810,833**

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of the "TLTRO II" operation. To assist this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

Intragroup balances with Banco Popolare di Spoleto at the year end amount to Euro 74,095 thousand and relate to current accounts and demand deposits, of which Euro 32,169 thousand are restricted deposits for a compulsory reserve that the Bank holds on behalf of the subsidiary.

1.2 Details of caption 10 "Due to banks": subordinated loans

As at the reporting date, Banco Desio did not have any subordinated loans due to banks

1.3 Details of caption 10 "Due to banks": structured loans

As at the reporting date, Banco Desio did not have any structured loans due to banks

1.4 Due to banks with specific hedge

At the reference dates, Banco Desio did not have amounts due to banks with specific hedge.

1.5 Finance lease payables

At the reference dates, Banco Desio did not have finance lease contracts with banks.

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	31.12.2016	31.12.2015
1. Current accounts and demand deposits	4,779,440	4,333,008
2. Restricted deposits	812,253	640,581
3. Loans		152,105
3.1 Repurchase agreements		152,105
3.2 Other		
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	31,205	29,365
Total	**5,622,898**	**5,155,059**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**5,622,898**	**5,155,059**
Fair value	**5,622,898**	**5,155,059**

In the comparative period, the caption "3.1 Repurchase agreements" included transactions with institutional counterparties of Euro 152,105 thousand.

The main components of "Other payables" relate to: cashier's checks for Euro 30,673 thousand and checks for Euro 528 thousand (last year cashier's checks for Euro 28,774 thousand and checks for Euro 548 thousand respectively).

The loans to companies belonging to the Banco Desio Group amount to 33 thousand euro, all relating to the subsidiary Fides S.p.A. (Euro 99 thousand last year). Transactions are carried out at market rates.

2.2 Details of caption 20 "Due to customers": subordinated loans

As at the reporting date, Banco Desio did not have any subordinated loans due to customers.

2.3 Details of caption 20 "Due to customers": structured loans

As at the reporting date, Banco Desio did not have any structured loans due to customers.

2.4 Due to customers with specific hedge

At the reference dates, Banco Desio did not have amounts due to customers with specific hedge.

Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

Type of security/Amounts	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,200,365		1,196,605		1,572,912		1,571,195	
1.1 structured	*15,161*		*15,297*		*14,771*		*14,771*	
1.2 other	*1,185,204*		*1,181,308*		*1,558,141*		*1,556,424*	
2. Other securities	10,194			10,194	52,775			52,775
2.1 structured								
2.2 other	*10,194*			*10,194*	*52,775*			*52,775*
Total	**1,210,559**		**1,196,605**	**10,194**	**1,625,687**		**1,571,195**	**52,775**

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.

During the year, new debt securities were issued of a nominal value (N.V.) of Euro 65,822 thousand, while debt securities redeemed on maturity amounted to Euro 451,696 thousand (N.V.). Again, during the year, repurchases were made of securities for Euro 88,029 thousand (N.V.) and which were subsequently relocated for Euro 102,306 thousand (N.V.).

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 10,191 thousand were issued with a short term maturity and Euro 3 thousand were issued with a longer than short term maturity.

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

3.2 Details of caption 30 "Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2016	31.12.2015
ISIN code IT0004780182	29.12.2011	29.12.2016	EUR	FR		12,910
ISIN code IT0004815855	15.06.2012	15.06.2017	EUR	FR	13,014	12,895
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	13,022	12,942
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	50,049	50,397
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,919	49,986
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,454	79,894
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	49,873	50,199
Total					**255,331**	**269,225**

3.3 Debt securities in issue with specific hedge

	31.12.2016	31.12.2015
1. Securities with specific fair value hedge:	10,203	59,559
a) interest rate risk	10,203	59,559
b) exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:	129,327	130,093
a) interest rate risk	129,327	130,093
b) exchange rate risk		
c) other		

Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2016					31.12.2015				
	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				2,164					2,022	
1.1 For trading				2,164					2,022	
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				**2,164**					**2,022**	
Total A+B				**2,164**					**2,022**	

Key:

FV = fair value

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

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Details of caption 40 "Financial liabilities held for trading": subordinated liabilities

At the reference dates, Banco Desio did not have subordinated financial liabilities held for trading.

4.3 Details of caption 40 "Financial liabilities held for trading": structured loans

As at the reporting date, Banco Desio's financial liabilities held for trading did not include any structured loans.

Section 5 - 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	31.12.2016					31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**15,450**		**15,908**		**16,151**	**22,050**		**22,828**		**23,117**
3.1 Structured	15,450		15,908			22,050		22,828		
3.2 Other										
Total	**15,450**		**15,908**		**16,151**	**22,050**		**22,828**		**23,117**

Key:

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

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The table shows financial liabilities that consist of bonds, which have been measured at fair value and which have been systematically hedged by the use of derivatives.

5.2 Details of caption 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at the reporting date, Banco Desio had not issued any subordinated bonds classifiable as financial liabilities designated at fair value through profit and loss.

Section 6 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31.12.2016				31.12.2015			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial		**2,778**		**130,000**		**19,924**		**180,000**
1) Fair value						19,494		100,000
2) Cash flows		2,778		130,000		430		80,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**2,778**		**130,000**		**19,924**		**180,000**

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities							2,778		
2. Portfolio									
Total liabilities							**2,778**		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Section 8 - Tax liabilities - voce 80

The breakdown and changes in the year of tax liabilities are disclosed in Section 13, Assets, together with information on deferred tax assets.

Section 9 - Liabilities associated with assets held for sale - caption 90

The composition of liabilities associated with assets held for sale is detailed in Section 14 of Assets.

Section 10 - Other liabilities - caption 100

10.1 Other liabilities: breakdown

	31.12.2016	31.12.2015
Due to tax authorities	363	1,287
Amounts payable to tax authorities on behalf of third parties	15,574	14,330
Social security contributions to be paid	4,466	4,421
Dividends due to shareholders	4	5
Suppliers	8,946	11,826
Amounts available to customers	14,919	12,097
Interest and dues to be credited	15	86
Payments against bill instructions	312	423
Early payments on loans not yet due	55	111
Items being processed and in transit with branches	51,564	40,551
Currency differences on portfolio transactions	3,518	46,238
Due to personnel	8,376	1,846
Sundry creditors	11,274	5,523
Provisions for guarantees given and commitments	3,111	1,072
Accrued expenses and deferred income	917	1,122
Total	**123,413**	**140,938**

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the Bank for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main component thereof relates to bank transfers being processed of Euro 42,758 thousand (Euro 32,614 thousand at the prior year end).

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 the payable relating to early retirement incentives of Euro 6,692 thousand (Euro 66 thousand last year) and the year end balance of the amount due for holiday pay of Euro 1,684 thousand (Euro 1,363 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: the additional contribution to the Single Resolution Mechanism (SRM), Euro 5,676 thousand; sundry creditors for currency transactions, Euro 1,106 thousand (Euro 1,406 thousand last year); creditors for notes collected, Euro 623 thousand (Euro 1,068 thousand last year), and credit transfers to be settled, Euro 439 thousand (Euro 108 thousand last year).

Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**21,111**	**24,342**
B. Increases	**935**	**363**
B.1 Provision for the year	484	363
B.2 Other changes	451	
C. Decreases	**691**	**3,594**
C.1 Payments made	691	2,665
C.2 Other changes		929
D. Closing balance	**21,355**	**21,111**

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is thus subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 7,662 thousand (Euro 7,872 thousand last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

The statutory liability to the employees of the Bank at year end amounts to Euro 20,197 thousand (Euro 20,611 thousand at the end of the prior year).

11.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used;
- for the probability of advances, an annual amount of 4% was assumed;

Economic and financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate 1.35%;
- annual inflation rate 1.50%;
- total annual income growth rate 2.50%;
- termination indemnity annual growth rate 2.63%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 10+ index at the valuation date has been taken as reference for the valuation of this parameter.

The rate of inflation has been estimated as 1.50% with reference to the Government Planning Document (DEF 2016) dated 9 April 2016.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/-0.25%)	20,991	21,720
Annual inflation rate (+/- 0.25%)	21,577	21,127
Annual turn over rate (+/- 2.00%)	21,220	21,508

Section 12 - Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Captions/Amounts	31.12.2016	31.12.2015
1. Pensions and similar commitments		
2. Other provisions for risks and charges	38,360	31,926
2.1 legal disputes	*11,909*	*12,652*
2.2 personnel expenses	*24,499*	*18,151*
2.3 other	*1,952*	*1,123*
Total	**38,360**	**31,926**

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 10,296 thousand relates to legal disputes (Euro 10,621 thousand at the prior year end) and Euro 1,613 thousand relates to bankruptcy clawback actions (Euro 2,031 thousand at the prior year end).

"Personnel expenses" mainly include estimated liabilities regarding the Solidarity fund, Euro 13,509 thousand (Euro 8,218 thousand last year); the bonus system, Euro 5,518 thousand (Euro 5,290 thousand last year), and the long-service and additional holiday awards, Euro 2,437 thousand (Euro 2,223 thousand last year).

The "other" caption includes the provisions recorded to cover other operating risks, including those relating to the tax dispute, Euro 91 thousand (Euro 75 thousand last year). The "other" caption also includes the provisions recorded to cover the estimated cost of winding-up Credito Privato Commerciale S.A. in liquidation and Rovere Société de Gestion S.A. in liquidation.

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

12.2 Provisions for risks and charges: changes in the year

	Pensions and similar commitments	Other provisions	Total
A. Opening balance		**31,926**	**31,926**
B. Increases		**21,317**	**21,317**
B.1 Provision for the year		21,172	21,172
B.2 Changes due to the passage of time		145	145
B.3 Changes due to changes in the discount rate			
B.4 Other changes			
C. Decreases		**14,883**	**14,883**
C.1 Utilisations during the year		14,337	14,337
C.2 Changes due to changes in the discount rate			
C.3 Other changes		546	546
D. Closing balance		**38,360**	**38,360**

"B.1 Provisions of the year" include provisions for:

- to the bonus fund of Euro 3,947 thousand,
- other employee related provisions of Euro 2,346 thousand,
- charges for legal disputes and bankruptcy of Euro 1,911 thousand,
- solidarity fund for 9,974 thousand euro.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, the utilisations mainly related to the coverage of legal disputes and claims from bankruptcy administrators, Euro 2,678 thousand; payments relating to the solidarity fund, Euro 4,927 thousand, and other operating risks, Euro 1,771 thousand.

12.3 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

12.4 Provisions for risks and charges: other provisions

	31.12.2016	31.12.2015
Legal disputes	11,909	12,652
Other operating risks	1,952	1,123
Solidarity fund	13,509	8,218
Long-service bonuses and additional holidays	2,437	2,224
Other employee related provisions	8,553	7,709
Total	**38,360**	**31,926**

Section 14 - Shareholders' equity - captions 130, 150, 160, 170, 180, 190 and 200

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

	31.12.2016	31.12.2015
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.

14.2 Share capital - Number of shares: changes in the year

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	**117,000,000**	**13,202,000**
- fully paid	117,000,000	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**117,000,000**	**13,202,000**
B. Increases		
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	**117,000,000**	**13,202,000**
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- not fully paid		

14.3 Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

14.4 Revenue reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

	31.12.2016	Possible uses		Unrestricted portion	Uses in the last three years	
					Loss coverage	Other uses
Share capital	67,705					
Share premium reserve	16,145	A,B,C	(1)	16,145		
Legal reserve	88,249	A, B	(2)			
Statutory reserve	511,728	A,B,C		511,728		
Merger surplus/deficit reserve	(27)					
Reserves for intercompany transactions	8,928	A, B	(3)			
Valuation reserves:						
- financial assets available for sale	(4,227)		(4)			
- actuarial measurement of provision for termination indemnities	(1,086)		(4)			
- special revaluation laws	22,199	A,B	(5)			
- revaluation reserve Law 413/1991	697	A,B,C		697		
- cash-flow hedges	(1,783)		(4)			
IAS transition reserve	121,936		(6)			
Charity reserve	55		(7)			95
Other	3,369	A,B,C		3,369		
Total	**833,888**			**531,939**		**95**

Key: A = increase in share capital B = for loss coverage C = for distribution

Notes:
(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable

(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital

(3) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection with the application of OP1.

(4) Restricted reserve as per art. 6 of Legislative Decree 38/2005

(5) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as envisaged in the "IAS Decree"

(6) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005

(7) Reserve for social-cultural contributions, as specified in the articles of association

14.5 Equity instruments: breakdown and changes in the year

None.

14.6 Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.2016	31.12.2015
1) Financial guarantees:	11,143	1,698
a) Banks	4,476	163
b) Customers	6,667	1,535
2) Commercial guarantees:	221,451	220,851
a) Banks	22,897	14,330
b) Customers	198,554	206,521
3) Irrevocable commitments to disburse loans	55,308	52,843
a) Banks		3,925
i) certain to be called on		399
ii) not certain to be called on		3,526
b) Customers	55,308	48,918
i) certain to be called on	4,629	1,200
ii) not certain to be called on	50,679	47,718
4) Commitments underlying credit derivatives: sale of protection		
5) Assets pledged to guarantee third-party commitments		
6) Other commitments		
Total	**287,902**	**275,392**

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2016	31.12.2015
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	129,909	827,250
4. Financial assets held to maturity		
5. Due from banks		
6. Loans to customers		
7. Property, plant and equipment		

3. Information on operating leases

This is not foreseen in Banco Desio.

4. Administration and trading on behalf of third parties

Type of services	31.12.2016
1. Execution of orders on behalf of customers	
a) purchases	
1. Settled	44,551
2. Unsettled	1,988
b) sales	
1. Settled	76,809
2. Unsettled	1,736
2. Asset management	
a) Individual	860,419
b) Collective	570,865
3. Custody and administration of securities	
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by the reporting bank	
2. other securities	
b) Third-party securities held on deposit (excluding portfolio management schemes): other	
1. securities issued by the reporting bank	1,215,459
2. other securities	7,967,636
c) third-party securities deposited with third parties	9,147,500
d) portfolio securities deposited with third parties	1,504,533
4. Other transactions	

5. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f=c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Deposits of cash received as collateral (e)		
1. Derivatives	797		797	293		504	556
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31.12.2016	**797**		**797**	**293**		**504**	
Total 31.12.2015	**2,877**		**2,877**	**711**	**1,610**		**556**

6. Financial liabilities subject to offsetting in the financial statements, or subject to framework agreements for offsetting or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f=c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	2,778		2,778	293	2,490	(5)	385
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31.12.2016	**2,778**		**2,778**	**293**	**2,490**	**(5)**	
Total 31.12.2015	**19,946**		**19,946**	**711**	**18,850**		**385**

Tables 5 and 6 show the positive *fair values* (Table 5 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they do provide for mechanisms to mitigate the counterparty risk of default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

- the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments";
- the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".

These effects are calculated for counterparties with whom there is a framework netting agreement within the limits of the amount indicated in column (c) "Net amount of financial assets reported in the financial statements.

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2016	31.12.2015
1. Financial assets held for trading	16		626	642	588
2. Financial assets available for sale	8,111			8,111	10,593
3. Financial assets held to maturity					
4. Due from banks		333		333	1,107
5. Loans to customers		168,584		168,584	214,211
6. Financial assets designated at fair value through					
7. Hedging derivatives					735
8. Other assets					31
Total	**8,127**	**168,917**	**626**	**177,670**	**227,265**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 11,182 thousand euro.

Caption "1. Financial assets held for trading – Other transactions" includes the positive net 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 2,675 thousand (Euro 3,968 thousand last year).

Conversely, the caption includes default interest collected in the year of Euro 517 thousand (Euro 444 thousand last year), of which Euro 496 thousand relates to prior years (Euro 396 thousand last year).

The caption includes interest payable to Group companies of Euro 12,523 thousand (Euro 14,045 thousand last year), of which:

- Euro 12,459 thousand on loans and receivables from Fides S.p.A. (Euro 14,045 thousand last year);
- Euro 64 thousand of repurchase agreements and loans and receivables from Banca Popolare di Spoleto S.p.A. (Euro 631 thousand last year).

1.2 Interest and similar income: differentials on hedging transactions

Captions	31.12.2016	31.12.2015
A. Positive differentials on hedging transactions		2,241
B. Negative differentials on hedging transactions		(1,506)
C. Balance (A-B)		**735**

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Captions	31.12.2016	31.12.2015
Interest income on financial assets in foreign currency	1,098	1,122

1.3.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 7,867 thousand (Euro 10,320 thousand last year); of this, Euro 7,023 thousand relates to index-linked contracts, of which Euro 381 thousand relates to leaseback agreements (in 2015 Euro 10,209 thousand related to indexed contracts, of which Euro 502 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 59,781 thousand, of which Euro 5,184 thousand relates to leaseback agreements (last year Euro 77,400 thousand and Euro 5,452 thousand, respectively).

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2016	31.12.2015
1. Due to central banks	(582)			(582)	(845)
2. Due to banks	(621)			(621)	(370)
3. Due to customers	(12,565)			(12,565)	(21,302)
4. Debt securities in issue		(28,288)		(28,288)	(39,676)
5. Financial liabilities held for trading					(40)
6. Financial liabilities designated at fair value		(648)		(648)	(695)
7. Other liabilities and provisions			(114)	(114)	(34)
8. Hedging derivatives			(235)	(235)	
Total	**(13,768)**	**(28,936)**	**(349)**	**(43,053)**	**(62,962)**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of Euro 2,331 thousand. The caption includes interest payable to Group companies of Euro 372 thousand (Euro 77 thousand last year).

1.5 Interest and similar expense: differentials on hedging transactions

Captions	31.12.2016	31.12.2015
A. Positive differentials on hedging transactions	1,164	
B. Negative differentials on hedging transactions	(1,399)	
C. Balance (A-B)	**(235)**	

1.6 Interest and similar expense: other information

Captions	31.12.2016	31.12.2015
Interest expense on foreign currency financial liabilities	(211)	(122)

1.6.2 Interest expense on finance leases

Banco Desio is not party to any finance lease agreements that generate interest expense.

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2016	31.12.2015
a) guarantees given	2,176	2,452
b) credit derivatives		
c) management, brokerage and consulting services:	33,945	40,086
1. trading in financial instruments		
2. trading in foreign exchange	1,330	1,524
3. asset management	4,699	4,229
3.1. individual	4,202	3,738
3.2. collective	497	491
4. custody and administration of securities	1,351	1,296
5. custodian bank		
6. placement of securities	13,319	15,477
7. order taking	4,594	7,084
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	8,652	10,476
9.1 asset management	310	367
9.1.1. individual	310	367
9.1.2. collective		
9.2 insurance products	6,452	8,707
9.3 other products	1,890	1,402
d) collection and payment services	17,823	19,444
e) servicing related to securitisation		
f) services for factoring transactions	140	155
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	44,498	48,459
j) other services	5,166	5,498
Total	**103,748**	**116,094**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of Euro 4,258 thousand.

Commission income from Group companies amounts to Euro 330 thousand (Euro 2,354 thousand last year).

Commissions for "other services" include recoveries of expenses on customer collection and payments for Euro 1,055 thousand, fees for the Internet banking service of Euro 686 thousand and recoveries of expenses on mortgage instalments for Euro 821 thousand.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2016	31.12.2015
a) at own branches		
1. portfolio management	4,699	4,229
2. placement of securities	13,319	15,477
3. distribution of third-party services and products	8,652	10,476
b) doorstep banking		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		
c) other distribution channels		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		

2.3 Commission expense: breakdown

Services/Amounts	31.12.2016	31.12.2015
a) guarantees received	(247)	(308)
b) credit derivatives		
c) management and brokerage services	(1,468)	(1,392)
1. trading in financial instruments	(89)	(52)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(1,242)	(1,281)
5. placement of financial instruments	(137)	(59)
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(1,907)	(2,369)
e) other services	(930)	(1,027)
Total	**(4,552)**	**(5,096)**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of Euro 38 thousand.

Commissions for "other services" include fees for the presentation of customers and loans granted to them for Euro 604 thousand.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2016		31.12.2015	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	32			
B. Financial assets available for sale	3,958		278	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments	6,143		3,855	
Total	**10,133**		**4,133**	

In addition to the amounts of dividends received from subsidiaries and associates, the table shows dividend income from non-controlling interests classified as financial assets available for sale.

The dividends in "caption B" include Euro 3,205 thousand recognised following the authorisation to distribute the profit reserves of Cedacri S.p.A., as well as the "ordinary" dividend of Euro 427 thousand.

Dividend income from equity investments, as per "caption D", relates to:

- Chiara Assicurazioni Euro 503 thousand (formerly Euro 722 thousand)
- Rovere Société de Gestion Euro 609 thousand (formerly Euro 634 thousand)
- Fides S.p.A. Euro 3,466 thousand (formerly Euro 2,500 thousand)
- B.P.S. Euro 1,565 thousand.

Section 4 - 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	**77**	**550**	**(332)**	**(212)**	**83**
1.1 Debt securities	23	215	(176)	(39)	23
1.2 Equity instruments	54	194	(156)	(127)	(35)
1.3 Mutual funds		29		(46)	(17)
1.4 Loans					
1.5 Other		112			112
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange differences	**x**	**x**	**x**	**x**	**2,772**
4. Derivatives	**19**	**5,161**		**(4,616)**	**633**
4.1 Financial derivatives:	19	5,161		(4,616)	564
- On debt securities and interest rates		3,916		(3,769)	147
- On equities and equity indices	19	1,157		(796)	380
- On currency and gold	x	x	x	x	69
- Other		88		(51)	37
4.2 Credit derivatives					
Total	**96**	**5,712**	**(332)**	**(4,828)**	**3,488**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted and for which the measurement results are shown in Section 7.

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

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2016	31.12.2015
A. Income relating to:		
A.1 Fair value hedges		4,035
A.2 Hedged financial assets (fair value)	315	288
A.3 Hedged financial liabilities (fair value)	876	1,208
A.4 Cash flow hedges		3
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**1,191**	**5,534**
B. Charges relating to:		
B.1 Fair value hedges	(1,754)	(1,682)
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		(21)
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		(3,662)
Total charges from hedging activity (B)	**(1,754)**	**(5,365)**
C. Net hedging gains (losses) (A-B)	**(563)**	**169**

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 Bank, respectively – as well as from the related hedging derivatives.

Section 6 - Gains (losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2016			31.12.2015		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	4,773	(4,064)	709	24	(473)	(449)
3. Financial assets available for sale	21,747	(5,633)	16,114	29,628	(983)	28,645
3.1 Debt securities	19,541	(4,777)	14,764	27,864	(848)	27,016
3.2 Equity instruments				777		777
3.3 Mutual funds	2,206	(856)	1,350	987	(135)	852
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**26,520**	**(9,697)**	**16,823**	**29,652**	**(1,456)**	**28,196**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	287	(1,511)	(1,224)	78	(1,824)	(1,746)
Total liabilities	**287**	**(1,511)**	**(1,224)**	**78**	**(1,824)**	**(1,746)**

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 "2. Loans to customers" caption includes the net gain (loss) on the disposal of non-performing loans, among which the transaction on 23 December 2016 that resulted in a profit of Euro 1.5 million for the Bank.

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 Mutual funds 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.

Section 7 - 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)] 31.12.2016
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities	**243**	**129**		**(3)**	**369**
2.1 Debt securities	243	129		(3)	369
2.2. Due to banks					
2.3. Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives	**22**	**23**	**(474)**		**(429)**
Total	**265**	**152**	**(474)**	**(3)**	**(60)**

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.

Section 8 - Net impairment write-downs/write-backs - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2016
	Specific		Portfolio	Specific		Portfolio		
	Write-offs	Other		A	B	A	B	
A. Due from banks								
- Loans								
- Debt securities								
B. Loans to customers								
Non-performing loans acquired								
- Loans								
- Debt securities								
Other receivables								
- Loans	(3,059)	(88,987)		13,331	27,379		6,323	(45,013)
- Debt securities								
C. Total	**(3,059)**	**(88,987)**		**13,331**	**27,379**		**6,323**	**(45,013)**

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 of Euro 3,059 thousand (Euro 3,305 thousand last year) from the write-off of non-performing loans.

"Write-downs – Other", determined by 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, relate to:

- non-performing loans Euro 54,477 thousand (formerly Euro 86,889 thousand)
- unlikely-to-pay loans Euro 33,819 thousand (formerly Euro 50,698 thousand)
- Past due non-performing loans Euro 691 thousand (formerly Euro 3,592 thousand)

"Portfolio" write-backs, which amounted to Euro 6,323 thousand (write-downs of Euro 26 thousand last year), relate to the performing loans portfolio.

Specific "interest" write-backs relate to the release of interest linked to the discounting of loan principal which is deemed to be recoverable, of which Euro 9,867 thousand relates to non-performing loans (Euro 9,425 thousand last year) and Euro 3,337 thousand to unlikely-to-pay positions (Euro 2,817 thousand last year).

"Other" specific write-backs relate to:

- non-performing loans written down in prior years Euro 1,998 thousand (formerly Euro 1,831thousand)
- collections of loans previously written down Euro 16,223 thousand (formerly Euro 14,609 thousand)
- measurement write-backs Euro 9,158 thousand (formerly Euro 22,416 thousand)

8.2 Net write-downs due to impairment of assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		31.12.2016	31.12.2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities		(19)		4	(15)	
B. Equity instruments		(320)			(320)	
C. Mutual funds		(1,541)			(1,541)	
D. Loans to banks						
E. Loans to customers						
F. Total		**(1,880)**		**4**	**(1,876)**	

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)				31.12.2016	31.12.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(95)	(2,058)		1,642		43	(468)	(412)
B. Credit derivatives									
C. Commitments to disburse									
D. Other transactions									
E. Total		**(95)**	**(2,058)**		**1,642**		**43**	**(468)**	**(412)**

Key

A = Interest

B = Other write-backs

This table includes impairment write-downs/write-backs concerning guarantees given in relation to losses that have already occurred and expected to occur on enforcement of the guarantees.

Section 9 - Administrative costs - caption 150

9.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2016	31.12.2015
1) Employees	(129,341)	(116,146)
a) Wages and salaries	(75,255)	(77,854)
b) Social security charges	(19,550)	(20,731)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(484)	(363)
f) provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(7,662)	(7,872)
- defined contribution	(7,662)	(7,872)
- defined benefit		
h) Equity-based payments		(172)
i) Other personnel benefits	(26,390)	(9,154)
2) Other active employees	(417)	(492)
3) Directors and auditors	(3,278)	(3,536)
4) Retired personnel		
5) Recovery of cost of employees seconded to other companies	720	463
6) Reimbursement of cost of third-party employees seconded to the Company	(3,175)	(2,542)
Total	**(135,491)**	**(122,253)**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 3,370 thousand euro.

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 9.4 below.

Caption "6. Reimbursement of cost of third-party employees seconded to the Company" refers to employees of Banca Popolare di Spoleto seconded to Banco di Desio in connection with the operational concentration at the Parent Company.

9.2 Average number of employees by level

	31.12.2016	31.12.2015
1) Employees	**1,410**	**1,453**
a) managers	26	23
b) middle managers	757	772
c) other employees	627	658
2) Other personnel	**1**	**5**

9.3 Defined post-employment benefit obligations: costs and revenues

None.

9.4 Other personnel benefits

	31.12.2016	31.12.2015
Provision for sundry charges	(6,289)	(5,960)
Contributions to healthcare fund	(1,317)	(1,393)
Training and instruction costs	(331)	30
Rent expense of property used by employees	(299)	(264)
Redundancy incentives	(16,477)	345
Other	(1,677)	(1,912)
Total	**(26,390)**	**(9,154)**

The main components of the "Other" caption include company canteen costs of Euro 1,261 thousand (Euro 1,354 thousand last year) and costs relating to insurance premiums of Euro 246 thousand (Euro 281 thousand last year).

9.5 Other administrative costs: breakdown

	31.12.2016	31.12.2015
Indirect taxes and duties:		
- Stamp duty	(17,514)	(18,504)
- Other	(3,994)	(3,742)
Other costs:		
- IT expenses	(9,367)	(9,518)
- Lease of property and other assets	(8,118)	(9,131)
- Maintenance of buildings, furniture and equipment	(3,812)	(3,252)
- Post office and telegraph	(1,745)	(1,538)
- Telephone and data transmission	(3,550)	(3,864)
- Electricity, heating, water	(2,901)	(3,021)
- Cleaning services	(845)	(875)
- Printers matter, stationery and consumables	(736)	(598)
- Transport costs	(678)	(704)
- Surveillance and security	(1,122)	(1,113)
- Advertising	(1,353)	(1,682)
- Information and surveys	(915)	(730)
- Insurance premiums	(814)	(903)
- Legal fees	(4,794)	(5,255)
- Professional consulting fees	(4,620)	(6,093)
- Various contributions and donations	(108)	(138)
- Sundry expenses	(16,917)	(13,411)
Total	**(83,903)**	**(84,072)**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of Euro 1,805 thousand.

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 10,568 thousand, Euro 7,968 thousand in the previous year of which:

- Euro 2,830 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 1,751 thousand in the previous period);

- Euro 5,675 thousand for the extraordinary contribution to the Single Resolution Mechanism as a result of the additional contribution request by the Bank of Italy to manage the resolution actions (Euro 5,256 thousand in the previous period);

- Euro 2,063 thousand for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (Euro 961 thousand in the previous year).

This caption also records the fees of the Independent Auditors Deloitte & Touche S.p.A., and other entities belonging to the same network, for services provided to the Bank that are summarised below by type.

Type of services	Party which provided the service	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	**202**
Attestation services	Deloitte & Touche S.p.A.	**2**
Other services:		
• review of translation of financial reports	Deloitte & Touche S.p.A.	**55**
• Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	**611**
Total		**870**

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 10 - Net provisions for risks and charges - caption 160

10.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2016	31.12.2015
Charges for legal disputes	(3,975)	2,121	(1,854)	(3,729)
Other	(486)		(486)	77
Total	**(4,461)**	**2,121**	**(2,340)**	**(3,652)**

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. The "other" caption is stated net of the release of the provision recorded in the prior year for the expected contribution to the solidarity fund covering the investors that had subscribed for the subordinated bonds of Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara, which was established by the 2016 Stability Law and then transferred to the Interbank Deposit Protection Fund (totalling Euro 466 thousand).

Section 11 - Net adjustments to property, plant and equipment - caption 170

11.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2016
A. Property, plant and equipment				
A.1 Owned	(4,990)			(4,990)
- for business purposes	(4,974)			(4,974)
- for investment purposes	(16)			(16)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	**(4,990)**			**(4,990)**

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "11.5 and 11.6 Changes in the year" of Section 11, Assets.

Section 12 - Net adjustments to intangible assets - caption 180

12.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2016
A. Intangible assets				
A.1 Owned	(1,428)			(1,428)
- Generated internally				
- Other	*(1,428)*			*(1,428)*
A.2 Held under finance leases				
Total	**(1,428)**			**(1,428)**

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

Section 13 - Other operating charges/income - caption 190

13.1 Other operating charges: breakdown

	31.12.2016	31.12.2015
Amortisation of leasehold improvements	(1,495)	(2,025)
Losses on disposal of property, plant and equipment		(18)
Charges on non-banking services	(492)	(424)
Total	**(1,987)**	**(2,467)**

"Charges on non-banking services" include insurance deductibles for robberies of Euro 153 thousand.

13.2 Other operating income: breakdown

	31.12.2016	31.12.2015
Recovery of taxes from third parties	19,210	19,883
Recharge of costs of current accounts and deposits	6,866	8,171
Rental and leasing income	45	71
Other expense recoveries	5,560	7,794
Gains on disposal of property, plant and equipment	2	75
Other	5,935	4,825
Total	**37,618**	**40,819**

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of Euro 933 thousand.

The "Recovery of taxes from third parties" caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 17,178 thousand, and the recovery of flat-rate taxes totalling Euro 2,032 thousand.

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 5,035 thousand (Euro 6,137 thousand at 31 December 2015) and other recoveries for various communications to customers of Euro 1,681 thousand (Euro 1,897 thousand in the previous year).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of Euro 3,011 thousand (Euro 5,027 thousand at 31 December 2015), the recovery of investigation costs of various loans for Euro 1,130 thousand (Euro 1,269 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 377 thousand (Euro 386 thousand last year), the recovery of sundry expenses relating to lease applications of Euro 517 thousand (Euro 721 thousand in 2015).

The main component of the "Other" caption relates to income from services rendered to Group companies totalling Euro 5,570 thousand (compared with Euro 4,545 thousand last year), of which Euro 5,461 thousand from the outsourcing contract with Banca Popolare di Spoleto S.p.A.; Also included are recharges of legal dispute costs of Euro 222 thousand.

Section 14 - Profit (loss) from equity investments - caption 210

14.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	31.12.2016	31.12.2015
A. Income	13,379	7,857
1. Revaluations		7,857
2. Gains on disposal	9,060	
3. Write-backs		
4. Other income	4,319	
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	**13,379**	**7,857**

The "Revaluations" in the comparative period were entirely attributable to the change in the functional currency of CPC, a foreign subsidiary, from Swiss Francs to Euros on 1 October 2015, following substantial completion of the liquidation process. The gain of Euro 7,857 thousand refers to the accumulated exchange differences on the value of the investment.

The "Gains on disposal" derive from the sale of the investments representing significant influence over Istifid (Euro 1,076 thousand) and Chiara Assicurazioni (Euro 7,984 thousand, including a price adjustment of Euro 411 thousand relating to the earlier disposal of 34% of Chiara Assicurazioni S.p.A. on 24 April 2013).

The "Other income" caption comprises the positive difference between the residual equity and the carrying amount of the liquidated companies, Rovere (Euro 150 thousand) and CPC (Euro 4,169 thousand), net of the estimated cost of deregistering them.

Section 16 - Goodwill impairment - caption 230

The impairment testing of the goodwill reported in the balance sheet did not identify any adjustments.

As regards the method adopted for the performance of the testing, reference should be made to "Section 12 – Intangible assets", Assets.

Section 17 - Gains (losses) on disposal of investments - caption 240

17.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	31.12.2016	31.12.2015
A. Property		2
- Gains on disposal		2
- Losses on disposal		
B. Other assets		
- Gains on disposal		
- Losses on disposal		
Net result		**2**

Caption "A. Property" refers to gains on the disposal of properties used in operations by the Bank.

Section 18 - Income taxes on current operations - caption 260

18.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2016	31.12.2015
1. Current taxes (-)	(1,453)	(21,948)
2. Change in prior period income taxes (+/-)	45	1,307
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(3,219)	10,905
5. Change in deferred tax liabilities (+/-)	395	943
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(4,232)	(8,793)

The "2. Change in prior period income taxes (+/-)" caption, reflecting income of Euro 45 thousand, was recorded on the release of excess current taxes accrued at 31.12.2015.

The caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).

18.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	35,911		35,911	
Costs not deductible for IRAP purposes			24,228	
Revenue not taxable for IRAP purposes			(26,839)	
Sub total	35,911		33,300	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		**(9,876)**		**(1,855)**
Temporary differences taxable in subsequent years	(1,163)		(996)	
Temporary differences deductible in subsequent years	19,814		20,009	
Reversal of prior year temporary differences	(28,261)		(22,257)	
Differences that will not reverse in subsequent years	(21,854)		(25,906)	
Taxable income	4,447		4,150	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(1,222)**		**(231)**

The effective total tax charge of Euro 1,453 thousand is reported the "1. Current taxes" caption of table 18.1.

The difference between the theoretical Ires tax charge and the current Ires tax charge was principally due to the 95% tax allowance:

- income from investments subject to the participation exemption "Pex", classified in caption 210 of the income statement, totalling Euro 13,379 thousand;
- dividends received on shares other than those held for trading, classified in caption 70 of the income statement, totalling Euro 10,101 thousand.

These amounts are included in the "Differences that will not reverse in subsequent years" line of the table.

Section 19 - Profit (loss) after tax on non-current assets held for sale - caption 280

19.1 Profit (loss) after tax on non-current assets/liabilities held for sale: breakdown

The equity investments in Rovere SA and Istifid S.p.A., both classified as non-current assets held for sale at 31 December 2015, do not represent major independent lines of business and, accordingly, their results have not been reclassified as "Profit (loss) from disposal groups".

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

Section 21 - Earnings per share

21.1 Average number of ordinary shares (fully diluted)

Please refer to the equivalent section in the Consolidated Financial Statements for the information on earnings per share.

21.2 Other information

There is no other information to be disclosed.

PART D – COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

Captions		31.12.2016 Gross amount	Income taxes	Net amount
10.	**Net profit (loss) for the period**			**31,679**
	Other elements of income, without reversal to income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined-benefit pension plans	(451)	124	(327)
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, with reversal to income statement			
70.	**Foreign investment hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
80.	**Exchange differences:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
90.	**Cash-flow hedges:**	**(2,757)**	**912**	**(1,845)**
	a) changes in fair value	(2,757)	912	(1,845)
	b) reversal to income statement			
	c) other changes			
100.	**Financial assets available for sale:**	**(7,989)**	**3,338**	**(4,651)**
	a) changes in fair value	(6,070)	2,705	(3,365)
	b) reversal to income statement	(2,547)	840	(1,707)
	- impairment adjustments	17	(6)	11
	- gains/losses on disposal	(2,564)	846	(1,718)
	c) other changes	628	(207)	421
110.	**Non-current assets and disposal groups held for sale:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
120.	**Portion of the valuation reserves of the equity investments carried at equity:**			
	a) changes in fair value			
	b) reversal to income statement			
	- impairment adjustments			
	- gains/losses on disposal			
	c) other changes			
130.	**Total other elements of income**	**(11,197)**	**4,374**	**(6,823)**
140.	**Total comprehensive income (Captions 10+130)**			**24,856**

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 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.

The Board of Directors of Banco Desio Brianza approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. These documents provide for specific risk indicators with the relevant attention thresholds on an individual legal entity basis.

SECTION 1 - CREDIT RISK

<u>Qualitative information</u>

1. *General aspects*

The lending activity of Banco di Desio e della Brianza 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; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Bank's branch network based on credit policies geared primarily to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Bank also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

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 Bank's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors has exclusive power to lay down the guidelines that have an impact on the running of the Bank's affairs. As regards internal controls, the Board of Directors approves the strategic direction and policies for risk management, as well as the organisational structure of the Bank.

The Board also verifies that the Chief Executive Officer defines the internal control structure and that the control functions have autonomy within the structure, where particular importance is assumed by the system for delegated powers provided for by the Articles of Association and as set out in the Internal Regulation. This consists of an articulated system that involves various bodies and functions and, with respect to operating powers of attorney, delegates specific powers concerning the granting and recovery of loans.

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.

During the fact finding stages of the lending process, the Bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the Bank operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

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 opposed to those with a regular trend.

As part of its corporate risk management policy, the Bank 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 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 the RAF and risk management policy. As part of the process for the adaptation of the Internal Control System (as per Circular 285), 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 uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due, watch list loans and doubtful loans).

For the purpose of calculating the capital requirement for credit risk, Banco Desio 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, Banco Desio 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 Banco Desio 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.

2.4. Impaired financial assets

The Bank has implemented the new definitions of non-performing financial assets in order to bring them into line with the concepts of "Non-Performing Exposures" and "Forbearance" introduced by implementing technical standards concerning statistical supervisory reports defined by the European Banking Authority and approved by the European Commission on 9 January 2015.

In particular, the definitions introduced by the new legislation are as follows:

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary;
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn;
- Non-performing past due and/or overdrawn exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days;

Forborne exposures are individual exposures (approach by transaction) to a debtor, regardless of their classification as non-performing or performing, which would represent the subject of a "forbearance" (refinancing or modification of the contractual terms favourable for the debtor), if that forbearance is subsequent to the recognition of a present or future state of difficulty on the part of the debtor.

The Bank has introduced a policy governing criteria and rules for the application of adjustments by codifying the rules that lay down the minimum percentages to be applied in determining expected losses, depending on the type of impaired loans, the original technical form and the type of collateral.

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 compared with the development of the individual position. The Risk Management Department periodically monitors compliance with the doubtful collection percentages envisaged in the policy for managing impaired loans, and reports potential discrepancies to the relevant functions for any realignment actions deemed necessary.

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

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Doubtful loans	Unlikely to pay	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	1,394,486	1,394,486
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	500,276	500,276
4. Loans to customers	253,157	190,612	6,134	84,612	5,712,538	6,247,053
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31.12.2016	**253,157**	**190,612**	**6,134**	**84,612**	**7,607,300**	**8,141,815**
Total 31.12.2015	**262,134**	**182,203**	**18,536**	**156,417**	**7,250,911**	**7,870,201**

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	
1. Financial assets available for sale	-	-	-	1,394,486	-	1,394,486	1,394,486
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	500,276	-	500,276	500,276
4. Loans to customers	837,745	(387,842)	449,903	5,824,822	(27,672)	5,797,150	6,247,053
5. Financial assets designated at fair value through profit and loss	-	-	-			-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31.12.2016	**837,745**	**(387,842)**	**449,903**	**7,719,584**	**(27,672)**	**7,691,912**	**8,141,815**
Total 31.12.2015	**877,048**	**(414,174)**	**462,874**	**7,441,472**	**(34,145)**	**7,407,327**	**7,870,201**

At 31 December 2016 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 82,596 thousand.

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	31	7,266
2. Hedging derivatives	-	-	262
Total 31.12.2016	**-**	**31**	**7,528**
Total 31.12.2015	**-**	**-**	**4,924**

A.1.3 On- and off-balance sheet credit exposures to banks: gross and net amounts and past due bands

Types of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
b) Unlikely to pay	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
c) Past due non-performing loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
d) Past due performing loans					-		-	-
- of which: exposures subject to forbearance					-		-	-
e) Other performing exposures					594,749		-	594,749
- of which: exposures subject to forbearance					-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**594,749**	**-**	**-**	**594,749**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-		-		-
b) Performing					29,041		-	29,041
TOTAL B	**-**	**-**	**-**	**-**	**29,041**	**-**	**-**	**29,041**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**623,790**	**-**	**-**	**623,790**

"Cash exposure" includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.4 On-balance sheet credit exposures to banks: changes in gross doubtful loans

There are no such credit exposures at the reporting date.

A.1.4 bis On-balance sheet credit exposures to banks: changes in exposures subject to gross forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.5 On-balance sheet credit exposures to banks: changes in total adjustments

There are no such contractual arrangements at the reporting date.

A.1.6 On- and off-balance sheet credit exposures to customers: gross and net amounts and past due bands

Types of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	311	7,154	15,478	540,028		(309,814)		253,157
- of which: exposures subject to forbearance		474	2,554	21,484		(13,149)		11,364
b) Unlikely to pay	115,835	33,076	46,354	72,411		(77,064)		190,612
- of which: exposures subject to forbearance	67,803	15,364	22,069	24,976		(31,616)		98,596
c) Past due non-performing loans	4,703	1,085	1,219	91		(964)		6,134
- of which: exposures subject to forbearance	3,595	515	49	1		(580)		3,580
d) Past due performing loans					86,470		(1,858)	84,612
- of which: exposures subject to forbearance					17,191		(465)	16,726
e) Other performing exposures					7,042,862		(25,814)	7,017,048
- of which: exposures subject to forbearance					108,157		(1,979)	106,178
TOTAL A	**120,849**	**41,315**	**63,051**	**612,530**	**7,129,332**	**(387,842)**	**(27,672)**	**7,551,563**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	2,440					(298)		2,142
b) Performing					261,777		(2,813)	258,964
TOTAL B	**2,440**				**261,777**	**(298)**	**(2,813)**	**261,106**
TOTAL (A+B)	**123,289**	**41,315**	**63,051**	**612,530**	**7,391,109**	**(388,140)**	**(30,485)**	**7,812,669**

"Cash exposure" includes all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.)."Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.). It should also be pointed out the risk associated with exposures related to repurchase agreements.

A.1.7 On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Unlikely to pay	Past due non-performing loans
A. Opening gross exposure	**594,956**	**260,556**	**21,539**
- of which: exposure sold but not derecognised	-	-	-
B. Increases	**95,642**	**139,753**	**20,906**
B.1 transfers from performing positions	6,356	89,775	19,443
B.2 transfers from other categories of doubtful exposures	72,902	13,479	42
B.3 other increases	16,384	36,499	1,421
- of which: business combinations	-	-	-
C. Decreases	**127,627**	**132,633**	**35,347**
C.1 transfers to performing positions	-	5,153	8,638
C.2 write-offs	79,415	-	-
C.3 collections	38,523	54,560	13,206
C.4 proceeds from disposal	5,625	-	-
C.5 losses on disposal	4,064	-	-
C.6 transfers to other categories of non-performing exposures	-	72,920	13,503
C.7 other decreases	-	-	-
- of which: business combinations	-	-	-
D. Closing gross exposure	**562,971**	**267,676**	**7,098**
- of which: exposure sold but not derecognised	-	-	-

A.1.7 bis On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

Description/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	**142,420**	**104,926**
- of which: exposure sold but not derecognised	-	-
B. Increases	**52,289**	**66,735**
B.1 transfers from performing positions not subject to forbearance	12,414	62,195
B.2 transfers from performing positions subject to forbearance	19,098	
B.3 transfer from exposures subject to forbearance		4,540
B.4 other increases	20,777	
C. Decreases	**35,825**	**46,313**
C.1 transfers to performing positions not subject to forbearance		1,943
C.2 transfers to performing positions subject to forbearance	4,540	
C.3 transfer to exposures subject to forbearance deteriorate		19,098
C.4 write-offs	571	
C.5 collections	30,690	21,859
C.6 proceeds from disposal	24	
C.7 losses on disposal		
C.8 other decreases		3,413
D. Closing gross exposure	**158,884**	**125,348**
- of which: exposure sold but not derecognised	-	-

A.1.8 On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans		Unlikely to pay		Past due non-performing loans	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	**332,820**	**5,339**	**78,350**	**31,855**	**3,002**	**2,071**
- of which: exposure sold but not derecognised	-	-	-	-	-	-
B. Increases	**89,931**	**9,413**	**34,642**	**12,245**	**731**	**425**
B.1 write-downs	61,272	4,080	33,819	-	691	301
B.2 losses on disposal	4,064	1	-	-	-	-
B.3 transfers from other categories of non-performing exposures	22,607	5,288	823	10,961	40	-
B.4 other increases	1,988	44	-	1,284	-	124
C. Decreases	**112,937**	**1,603**	**35,928**	**12,484**	**2,769**	**1,916**
C.1 measurement write-backs	12,147	233	9,519	5,435	823	705
C.2 writebacks on collection	12,538	753	3,947	1,780	938	757
C.3 gains on disposal	4,773	21	-	-	-	-
C.4 write-offs	79,415	571	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	22,462	5,269	1,008	454
C.6 other decreases	4,064	25	-	-	-	-
D. Total closing adjustments	**309,814**	**13,149**	**77,064**	**31,616**	**964**	**580**
- of which: exposure sold but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures on the basis of external rating

A.2.1 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.

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class

Banco Desio does not use internal rating models for the determination of capital requirements.

The Bank 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 31.12.2016	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposure	67.70%	24.58%	6.13%	1.59%	100%
Off-balance sheet exposures	81.71%	15.60%	1.85%	0.84%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Guaranteed credit exposures to customers

	Amount of net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Government and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties	
1. Guaranteed on-balance sheet exposures:	3,778,444	2,202,423	222,504	396,447	134,136							109,859	293	676,133	3,741,795
1.1. totally guaranteed	3,598,848	2,189,634	222,504	360,860	127,839							52,264	168	640,833	3,594,102
- of which: non-performing	*379,926*	*322,549*	*13,630*	*1,004*	*5,775*							*1,440*		*34,230*	*378,628*
1.2. partially guaranteed	179,596	12,789		35,587	6,297							57,595	125	35,300	147,693
- of which: non-performing	*20,601*	*12,495*		*459*	*1,659*							*1,396*		*3,504*	*19,513*
2. Guaranteed off-balance sheet exposures:	110,353	4,840		19,242	18,675								665	59,312	102,734
2.1. totally guaranteed	92,278	4,840		14,175	16,534									56,710	92,259
- of which: non-performing	*1,292*	*186*		*307*	*100*									*698*	*1,291*
2.2. partially guaranteed	18,075			5,067	2,141								665	2,602	10,475
- of which: non-performing	*14*			*6*										*6*	*12*

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.1

Exposures/Counterparties	Governments			Other public entities			Financial companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure									
A.1 Doubtful loans	-	-		-	-		518	(905)	
- of which: exposures subject to forbearance	-	-		-	-		21	(59)	
A.2 Unlikely to pay	-	-		-	-		265	(269)	
- of which: exposures subject to forbearance	-	-		-	-		74	(110)	
A.3 Past due non-performing loans	-	-		-	-		-	-	
- of which: exposures subject to forbearance	-	-		-	-		-	-	
A.4 Performing loans	1,288,158		-	-		-	736,202		(1,177)
- of which: exposures subject to forbearance	-		-	-		-	1,085		(77)
Total A	**1,288,158**	**-**	**-**	**-**	**-**	**-**	**736,985**	**(1,174)**	**(1,177)**
B. Off-balance sheet exposures									
B.1 Doubtful loans	-	-		-	-		-	-	
B.2 Unlikely to pay	-	-		-	-		-	-	
B.3 Other doubtful loans	-	-		-	-		-	-	-
B.4 Performing loans	387		-	-		-	3,831		(566)
Total B	**387**	**-**	**-**	**-**	**-**	**-**	**3,831**	**-**	**(566)**
Total (A+B) 31.12.2016	**1,288,545**	**-**	**-**	**-**	**-**	**-**	**740,816**	**(1,174)**	**(1,743)**
Total (A+B) 31.12.2015	**1,367,266**	**-**	**-**	**-**	**-**	**-**	**482,464**	**(1,142)**	**(1,061)**

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure									
A.1 Doubtful loans	-	-		179,302	(247,253)		73,337	(61,656)	
- of which: exposures subject to forbearance	-	-		6,593	(9,204)		4,750	(3,886)	
A.2 Unlikely to pay	-	-		136,826	(64,433)		53,521	(12,362)	
- of which: exposures subject to forbearance	-	-		70,491	(25,930)		28,031	(5,576)	
A.3 Past due non-performing loans	-	-		4,876	(772)		1,258	(192)	
- of which: exposures subject to forbearance	-	-		2,892	(473)		688	(107)	
A.4 Performing loans	1,750		-	3,775,310		(24,811)	1,300,240		(1,684)
- of which: exposures subject to forbearance	-		-	94,807		(2,218)	27,012		(149)
Total A	**1,750**	**-**	**-**	**4,096,314**	**(312,458)**	**(24,811)**	**1,428,356**	**(74,210)**	**(1,684)**
B. Off-balance sheet exposures									
B.1 Doubtful loans	-	-		570	(2)		11	-	
B.2 Unlikely to pay	-	-		1,071	(293)		7	(3)	
B.3 Other doubtful loans	-	-		458	-		24	-	
B.4 Performing loans	3,032		(1,685)	235,753		(552)	15,962		(9)
Total B	**3,032**	**-**	**(1,685)**	**237,852**	**(295)**	**(552)**	**16,004**	**(3)**	**(9)**
Total (A+B) 31.12.2016	**4,782**	**-**	**(1,685)**	**4,334,166**	**(312,753)**	**(25,363)**	**1,444,360**	**(74,213)**	**(1,693)**
Total (A+B) 31.12.2015	**2,284**	**-**	**(11)**	**4,351,991**	**(337,706)**	**(31,443)**	**1,406,712**	**(75,600)**	**(2,430)**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	251,960	(309,387)	1,197	(427)	-	-	-	-	-	-
A.2 Unlikely to pay	190,579	(77,060)	33	(4)	-	-	-	-	-	-
A.3 Past due non-performing loans	6,134	(964)	-	-	-	-	-	-	-	-
A.4 Performing loans	7,089,941	(27,643)	10,830	(28)	337	-	552	(1)	-	-
Total A	**7,538,614**	**(415,054)**	**12,060**	**(459)**	**337**	**-**	**552**	**(1)**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans	581	(1)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	1,078	(296)	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	482	-	-	-	-	-	-	-	-	-
B.4 Performing loans	258,128	(2,813)	836	-	-	-	-	-	-	-
Total B	**260,269**	**(3,110)**	**836**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total A+B at 31.12.2016	**7,798,883**	**(418,164)**	**12,896**	**(459)**	**337**	**-**	**552**	**(1)**	**-**	**-**
Total A+B at 31.12.2015	**7,523,393**	**(448,875)**	**83,723**	**(513)**	**1,334**	**(1)**	**234**	**(1)**	**-**	**-**

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	586,145	-	4,178	-	2,183	-	2,160	-	83	-
Total A	**586,145**	**-**	**4,178**	**-**	**2,183**	**-**	**2,160**	**-**	**83**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing loans	22,448	-	3,886	-	-	-	2,707	-	-	-
Total B	**22,448**	**-**	**3,886**	**-**	**-**	**-**	**2,707**	**-**	**-**	**-**
Total A+B at 31.12.2016	**608,593**	**-**	**8,064**	**-**	**2,183**	**-**	**4,867**	**-**	**83**	**-**
Total A+B at 31.12.2015	**523,200**	**-**	**10,256**	**-**	**2,239**	**-**	**5,200**	**-**	**331**	**-**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2016 is reported below (amounts in thousands of Euro):

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Large exposures	2,855,128	110,235	3

The positions indicated relate to exposures towards the Italian Government relating to securities in portfolio, Cassa di Compensazione e Garanzia and Group companies.

C. Securitisation transactions

Quantitative information

C.1 Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

None.

C.2 Exposures arising from principal "third party" securitisations broken down by type of securitised asset and by type of exposure

Type of underlying assets/ Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	of which: Adj./write-	Book value	Adj./ write-back	Book value	Adj./ write-back	Net exposure	Adj./ write-back	Net exposure	Adj./ write-back	Net exposure	Adj./ write-back	Net exposure	Adj./ write-back	Net exposure	Adj./ write-back	Net exposure	Adj./ write-back
A.1 F.I.P 26.04.25 - PROPERTY	471	-15																

E. Asset disposals

<u>Quantitative information</u>

E.1 Financial assets sold but not derecognised: book value and full value

p.1

Technical forms/Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss		
	A	B	C	A	B	C
A. Cash assets						
1. Debt securities						
2. Equity instruments						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2016						
of which: non-performing						
Total 31.12.2015						
of which: non-performing						

E.1 Financial assets sold but not derecognised: book value and full value

p.2

Technical forms/Portfolio	Financial assets available for sale			Financial assets held to maturity		
	A	B	C	A	B	C
A. Cash assets						
1. Debt securities						
2. Equity						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2016						
of which: non-performing						
Total 31.12.2015	**152,057**					
of which: non-performing						

E.1 Financial assets sold but not derecognised: book value and full value

p.3

Technical forms/Portfolio	Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	31.12.2016	31.12.2015
A. Cash assets								**152,057**
1. Debt securities								152,057
2. Equity instruments								
3. Mutual funds								
4. Loans								
B. Derivatives								
Total 31.12.2016								
of which: non-performing								
Total 31.12.2015								**152,057**
of which: non-performing								

Key:

A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

E.2 Financial liabilities pertaining to financial assets sold but not derecognised: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
2. Due to banks							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
Total 31.12.2016							
Total 31.12.2015			**152,105**				**152,105**

F. Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

SECTION 2 – MARKET RISK

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.

Banco Desio 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

Trading by the Finance Department 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 Value at Risk (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. Together with the above controls, the Bank also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management department, which operates in complete autonomy from the operational areas.

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 VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is the infoprovider Bloomberg.

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

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

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,867**	**1,276**	**-**	**-**	**-**	**-**	**1,339**	**-**
1.1 Debt securities	1,867	1,276	-	-	-	-	1,339	-
- with early redemption option	-	1,276	-	-	-	-	-	-
- other	1,867	-	-	-	-	-	1,339	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	19	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	19	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	234,357	5,726	6,983	-	-	-	-
+ Short positions	-	240,092	5,717	6,982	-	-	-	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	239,519	5,888	7,131	-	-	-	-
+ Short positions	-	233,699	5,888	7,132	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation / equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments	**1,427**	**749**	**116**	
long positions	1,427	749	116	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives	**19**			
long positions	19			
short positions				
D. equity index derivatives				
long positions				
short positions				

3. Regulatory trading book: internal models and other methodologies used for sensitivity analysis

The monitoring of the "trading portfolio reported for supervisory purposes" in the second half of 2016 evidenced a structure with limited market risks. Related VaR at 31.12.2016 amounted to Euro 65 thousand, with a percentage of 0.95% of the trading portfolio.

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 Risk Management Department, which is autonomous with respect to operational areas. All of the Bank's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives is monitored with Asset and Liability Management (ALM) methodologies using ALMpro. 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.

The model covers assets and liabilities exposed to interest rate risk included in the banking book and in the financial statements. 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 several variants of Gap Analysis in order to achieve more accurate estimates.

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 and specific scenarios of changes in market interest rates.

B. Fair value hedges

The Bank's primary objective is to manage in a prudent and active manner the risks associated with operations, that is, to manage them with a specific risk profile, which permits any opportunities arising from changes in risk to be taken advantage of.

To date, the Bank has used fair value hedges 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.

Hedged instruments relate to liabilities (bonds issued). As regards liabilities, all hedging involves specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - mainly interest rate swaps and interest rate options - but only to hedge interest rate risk.

The Bank has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (international IAS/IFRS). The methodology used by the Bank to perform effectiveness tests is the "Dollar Offset Method" (hedge ratio) on a cumulative basis, that is, a comparison of the change in fair value of the hedging instrument with that of the hedged instrument. All hedges are specific.

Banco Desio 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 Bank uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but 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/IFRS. The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,720,219**	**4,367,179**	**540,237**	**174,816**	**892,556**	**284,333**	**96,526**	**-**
1.1 Debt securities	-	226,598	370,887	100,170	477,587	208,769	10,473	-
- with early redemption option	-	9,853	-	-	2,038	-	1,029	-
- other	-	216,745	370,887	100,170	475,549	208,769	9,444	-
1.2 Loans to banks	181,230	301,094	-	-	-	-	1,428	-
1.3 Loans to customers	1,538,989	3,839,487	169,350	74,646	414,969	75,564	84,625	-
- current accounts	1,131,458	367,559	4,347	4,317	54,675	64	-	-
- other loans	407,531	3,471,928	165,003	70,329	360,294	75,500	84,625	-
- with early redemption option	46,127	2,675,981	98,344	51,980	187,751	74,618	84,550	-
- other	361,404	795,947	66,659	18,349	172,543	882	75	-
2. Cash liabilities	**4,319,291**	**1,325,775**	**410,237**	**177,964**	**1,525,328**	**4,058**	**-**	**-**
2.1 Due to customers	4,123,449	929,201	295,908	96,102	104,449	-	-	-
- current accounts	4,087,008	929,196	295,898	96,100	104,449	-	-	-
- other payables	36,441	5	10	2	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	36,441	5	10	2	-	-	-	-
2.2 Due to banks	155,085	32,169	-	-	800,000	-	-	-
- current accounts	29,878	-	-	-	-	-	-	-
- other payables	125,207	32,169	-	-	800,000	-	-	-
2.3 Debt securities	40,757	364,405	114,329	81,862	620,879	4,058	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	40,757	364,405	114,329	81,862	620,879	4,058	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	104	397	-	3	-	-	-
+ Short positions	-	492	-	-	11	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	25,530	39,400	43,715	225,922	34,942	24,696	-
+ Short positions	-	390,672	3,533	-	-	-	-	-
- Other derivatives								
+ Long positions	-	147,900	-	10,000	-	-	-	-
+ Short positions	-	27,900	-	-	50,000	80,000	-	-
4. Other off-balance sheet transactions								
+ Long positions	(27,785)	-	-	-	-	-	-	-
+ Short positions	27,785	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**5,033**	**53,977**	**3,200**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	3,858	7,894	2,300	-	-	-	-	-
1.3 Loans to customers	1,175	46,083	900	-	-	-	-	-
- current accounts	609	-	-	-	-	-	-	-
- other loans	566	46,083	900	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	566	46,083	900	-	-	-	-	-
2. Cash liabilities	**58,889**	**5,663**	**2,300**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	41,374	545	669	-	-	-	-	-
- current accounts	41,374	545	669	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	17,515	5,118	1,631	-	-	-	-	-
- current accounts	17,515	-	-	-	-	-	-	-
- other payables	-	5,118	1,631	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	(299)	-	-	-	-	-	-
+ Short positions	-	299	-	-	-	-	-	-

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

The Bank's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations.

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 31 December 2016, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31 December 2016

	+100 bps	***-100 bps***
% of the expected margin	*4.46%*	*-27.62%*
% of net interest and other banking income	*2.44%*	*-15.10%*
% of the result of the year	*17.82%*	*-110.37%*
% of shareholders' equity	*0.68%*	*-4.17%*

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure at 31 December 2016 that has been maintained at levels that do not significantly impact 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 31.12.2016

	+100 bps	***-100 bps***
% of the economic value	*-2.19%*	*2.48%*

2.3 EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Bank 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 Bank is marginally exposed to foreign exchange risk. The Operations Room of the Finance Department manages forex operations, with respect to which it:

- operates in domestic and international foreign exchange, interest rate and foreign currency deposits markets;
- executes spot and forward currency contracts on its own account and on behalf of customers;
- executes currency forwards and foreign currency deposits with resident and non resident counterparties.

Exchange rate risk is managed through "intraday" and "end-of-day" 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 Bank'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

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US Dollar	Pound Sterling	Yen	Swiss Franc	Other currencies
A. Financial assets	**51,692**	**2,628**	**3,758**	**3,894**	**1,113**
A.1 Debt securities					
A.2 Equity instruments	876				
A.3 Loans to banks	7,642	1,763	588	3,016	1,043
A.4 Loans to customers	43,174	865	3,170	878	70
A.5 Other financial assets					
B. Other assets	**140**	**74**	**8**	**66**	**32**
C. Financial liabilities	**53,883**	**5,638**	**772**	**3,488**	**1,856**
C.1 Due to banks	20,810	2,789	7	407	251
C.2 Due to customers	33,073	2,849	765	3,081	1,605
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**2,407**	**3**		**354**	**6**
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other					
+ Long positions	189,560	35,034	9,355	15,316	3,274
+ Short positions	184,313	32,017	12,509	15,374	2,507
Total assets	**241,392**	**37,736**	**13,121**	**19,276**	**4,419**
Total liabilities	**(240,603)**	**(37,658)**	**(13,281)**	**(19,216)**	**(4,369)**
Net balance (+/-)	**789**	**78**	**(160)**	**60**	**50**

2. Internal models and other methodologies for the analysis of sensitivity

The Bank'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.

2.4 DERIVATIVE INSTRUMENTS

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices	**19**			**11**
a) Options	19			11
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currencies and gold	**477,733**		**504,821**	
a) Options				
b) Swap				
c) Forward	477,733		504,821	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**477,752**		**504,821**	**11**

A.2 Banking book: period-end notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2016 Over the counter	31.12.2016 Central counterparties	31.12.2015 Over the counter	31.12.2015 Central counterparties
1. Debt securities and interest rates	**140,000**	**-**	**289,617**	**-**
a) Options	-	-	-	-
b) Swap	140,000	-	289,617	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**140,000**	**-**	**289,617**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**53,700**	**-**	**68,700**	**-**
a) Options	35,800	-	45,800	-
b) Swap	17,900	-	22,900	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**53,700**	**-**	**68,700**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**2,263**		**2,059**	**11**
a) Options	19			11
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	2,244		2,059	
f) Futures				
g) Other				
B. Banking book - hedging	**262**		**1,859**	
a) Options				
b) Interest rate swaps	262		1,859	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	**535**		**995**	
a) Options				
b) Interest rate swaps	535		995	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**3,060**		**4,913**	**11**

A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**2,164**		**2,022**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	2,164		2,022	
f) Futures				
g) Other				
B. Banking book - hedging	**2,778**		**19,924**	
a) Options				
b) Interest rate swaps	2,778		19,924	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**4,942**		**21,946**	

A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Equities and equity indices							
- notional value				19			
- positive fair value				19			
- negative fair value							
- future exposure				19			
3. Currencies and gold							
- notional value			216,617	222,043		18,118	20,955
- positive fair value			1,668	345		215	16
- negative fair value			483	1,212		340	129
- future exposure			2,166	2,220		181	210
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value			193,700				
- positive fair value			797				
- negative fair value			2,778				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currencies and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	**477,733**	**19**		**477,752**
A.1 Financial derivatives linked to debt securities and interest rates				
A.2 Financial derivatives linked to equities and stock indices		19		19
A.3 Financial derivatives linked to exchange	477,733			477,733
A.4 Financial derivatives linked to other				
B. Banking book	**63,700**	**50,000**	**80,000**	**193,700**
B.1 Financial derivatives linked to debt securities and interest rates	63,700	50,000	80,000	193,700
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange				
B.4 Financial derivatives linked to other				
Total 31.12.2016	**541,433**	**50,019**	**80,000**	**671,452**
Total 31.12.2015	**684,198**	**48,940**	**130,000**	**863,138**

C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative agreements			**8,374**				
- positive fair value			4,439				
- negative fair value			2,485				
- future exposure			1,450				
- net counterparty risk							
2) Bilateral credit derivative							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

SECTION 3 - LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of meeting 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 monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Department 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 issued Bonds;
- 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 Bank'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. 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 Bank 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.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,800,804**	**327,093**	**54,517**	**210,002**	**753,309**	**331,855**	**531,553**	**2,308,768**	**1,914,662**	**78,591**
A.1 Government securities	-	-	416	-	12,107	2,128	101,543	450,000	728,788	-
A.2 Other debt securities	50	26	24	5,304	285	2,722	10,621	55,803	34,486	-
A.3 Mutual funds	74,578	-	-	-	-	-	-	-	-	-
A.4 Loans	1,726,176	327,067	54,077	204,698	740,917	327,005	419,389	1,802,965	1,151,388	78,591
- Banks	181,230	104,295	-	-	118,212	-	-	-	1,428	78,591
- Customers	1,544,946	222,772	54,077	204,698	622,705	327,005	419,389	1,802,965	1,149,960	-
Cash liabilities	**4,799,215**	**25,141**	**69,757**	**153,985**	**258,273**	**381,836**	**213,988**	**1,812,827**	**85,262**	**-**
B.1 Deposits and current accounts	4,767,942	24,833	28,772	126,596	166,329	296,693	96,582	104,318	-	-
- Banks	29,877	-	-	32,169	-	-	-	-	-	-
- Customers	4,738,065	24,833	28,772	94,427	166,329	296,693	96,582	104,318	-	-
B.2 Debt securities	69	308	40,985	27,389	91,944	68,189	100,452	818,979	83,494	-
B.3 Other liabilities	31,204	-	-	-	-	16,954	16,954	889,530	1,768	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	7,983	550	214,286	11,643	6,122	6,983	3	-	-
- Short positions	-	14,110	521	214,214	11,651	5,717	6,982	118	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	292	243	-	121	-	-	-
- Short positions	-	-	-	85	134	120	234	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	-	-	-	2,950	565	10	10,820	13,439	-
- Short positions	27,785	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,044**	**931**	**8,747**	**27,004**	**17,635**	**3,224**	**-**	**-**	**14**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	14	-
A.3 Mutual funds	11	-	-	-	-	-	-	-	-	-
A.4 Loans	5,033	931	8,747	27,004	17,635	3,224	-	-	-	-
- Banks	3,858	931	559	6,409	-	2,310	-	-	-	-
- Customers	1,175	-	8,188	20,595	17,635	914	-	-	-	-
Cash liabilities	**58,889**	**372**	**-**	**4,751**	**545**	**2,308**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	58,889	372	-	4,751	545	2,308	-	-	-	-
- Banks	17,515	372	-	4,751	-	1,636	-	-	-	-
- Customers	41,375	-	-	-	545	672	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	13,654	545	213,279	12,041	5,888	7,131	-	-	-
- Short positions	-	7,804	576	213,279	12,040	5,888	7,132	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	299	-	-	-	-	-	-	-	-
- Short positions	-	299	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 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 uses the above definition of operational risk within the operational risk management model as approved and formalised.

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;
- 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.

The Risk Management Office applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system has been implemented and is capable of providing senior management with information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals. In 2016, the reporting system was supplemented with a specific focus on the subject of anti-money laundering risk.

In compliance with the Bank of Italy's provisions (former circular 263/06 section 8 and 9), Banco Desio set up the Security and ICT Governance Function and adopted the following procedures:

1. Security Management;
2. Accident Management;
3. IT Risk Assessment.

As regards the management of risks impacting the Bank'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 Business Continuity 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.

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 Bank has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific bodies.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning avoidance actions, alleged usury and compound interest charges.

Risk related to outstanding legal disputes

Banco Desio e della Brianza, 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. The following table summarises the outstanding disputes at the end of the year, together with the related provisions:

	Number	Claim	Provisions
Claw-back suits	11	€ 6.414 million	€ 1.615 million
Other lawsuits	388	€ 114.150 million	€ 10.293 million

The principal disputes (claims in excess of Euro 1 million) are described below:

- CLAIM € 2.692 million. Plaintiff FAIRFIELD. 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 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 the Funds. On 27 January 2017 the Bank signed a motion proposed by the majority of the defendants asserting the lack of jurisdiction of the New York Court and requesting that the case be filed;
- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. 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. The next hearing is scheduled in June 2017 for the conclusions;

- 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. With judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty in its entirety. By application filed on 6 June 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second instance. The court has not yet set the date for the hearing;
- CLAIM: € 2 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. paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The court has not yet set the date for the hearing;
- 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 contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing;
- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.; the counterparty appealed, but the court has rejected the petition. The ruling has been challenged by the company and the guarantors by an appeal to the Supreme Court;
- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose draft report appears to be in favour of Banco Desio della Brianza S.p.A.; the company appealed and the court rejected the petition. It is not currently known if an appeal will be made to the Supreme Court;
- CLAIM € 10.000 million. The company opposed the injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco di Desio e della Brianza 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. Rome Court ruling no. 16109/2016 ordered the counterparty to pay Banco Desio the recalculated amount of Euro 174,616.45 plus the late-payment interest specified in our main application. The judge rejected the counterclaim and ordered the counterparty to pay legal fees of € 5,500 and related expenses and to reimburse the costs of the court expert. The counterparty has challenged this ruling by filing an appeal. The first hearing is scheduled for 10 February 2017;

- CLAIM € 1.818 million. The plaintiff was declared bankrupt in 2015 after being admitted to the Extraordinary Administration Procedure in 2011. A summons has been notified to Banco di Desio e della Brianza S.p.A. concerning the bankruptcy clawback of € 1.818 million. The officials of the bankruptcy proceedings decided to sue, contesting certain movements that seemed to indicate anomalous activity on the plaintiff's account. The Bank questioned that they were revocable remittances, as they were actually mere accounting transactions carried out in the execution of the restructuring agreement as per art. 67 paragraph 2, letter d) of the Bankruptcy Law and, as such, could not be revoked. The case is under investigation.

Risks related to outstanding tax litigations

On 23 December, the Lombardy Regional Tax Office - Large Tax Payers Office served tax assessments on the Bank for the year 2011, for IRES and IRAP.

The notices of assessment follow the discussions with the Lombardy Regional Tax Office - Large Tax Payers Office (on which information was given in the notes to the 2015 financial statements), as a result of which the Tax Office has, on the one hand, abandoned the allegations of artificial foreign domicile of the former subsidiaries CPC and Rovere contained in the reports on findings notified by the Tax Police and, on the other, has presented claims against the Bank in relation to the "transfer pricing" issue.

In particular, the latter concern the Bank's failure to recharge the so-called "coordination costs" to Rovere and CPC.

As a result of these assessments, the Tax Authorities requested the Bank to pay additional taxes, penalties and interest totalling Euro 99 thousand, of which Euro 86 thousand relating to Ires and Euro 13 thousand relating to Irap.

With regard to the Irap claim, the Bank has decided to pay the disputed amounts. With regard to the Ires claim, the penalty levied is believed to be incorrect and the Bank will request a partial correction of the assessment (by Euro 8 thousand) before agreeing to pay. On payment, the amount of Euro 91 thousand will be expensed and offset by release of the related provision that has already been recorded.

Quantitative information

The number of detrimental events recorded by Banco Desio e Brianza in the course of 2016 comes to 1,145. The result of the process of collecting adverse events is summarised in the table below:

Event type	% events	% gross loss of total	% net loss of total	% 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	0.26%	0.5%	0.5%	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	4.89%	11.6%	11.3%	2.90%
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	0.52%	6.4%	6.5%	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)	10.13%	40.1%	40.3%	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	1.48%	1.0%	0.9%	13.43%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.09%	0.0%	0.0%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	82.62%	40.3%	40.5%	0.00%
TOTAL Banco Desio e della Brianza	**100.00%**	**100.00%**	**100.00%**	**0.5%**

The gross operating loss was Euro 3,127 thousand (net of the adjustments for events recognised and recorded in the period 2013-2015), in relation to which prudent provisions totalling Euro 2,432 thousand were recorded during the year. Of the total gross loss, an amount was recovered of Euro 15 thousand, resulting in a net loss of Euro 3,112 thousand.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, 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 Bank.

The concept of book equity used by Banco Desio 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.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	31.12.2016	31.12.2015
1. Share Capital	67.705	67.705
2. Share premium reserv e	16.145	16.145
3. Reserv es	734.238	708.128
- from profits	734.238	708.128
a) legal reserv e	88.249	84.504
b) statutory reserv e	511.728	489.417
c) reserv e for treasury shares		
d) other	134.261	134.207
- other		
3.bis Adv ances on div idends		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserv es	15.800	22.623
- Financial assets av ailable for sale	(4.227)	424
- Property, plant and equipment		
- Intangible assets		
- Foreign inv estment hedges		
- Cash-flow hedges	(1.783)	63
- Exchange differences		
- Non-current assets and disposal groups held for sale		
- Actuarial gains (losses) on defined-benefit pension plans	(1.086)	(760)
- Portion of v aluation reserv es relating to inv estments carried at equity		
- Special rev aluation laws	22.896	22.896
7. Net profit (loss) of the year	31.679	37.445
Totale	**865.567**	**852.046**

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

Assets/Amounts	31.12.2016		31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,785	(6,526)	3,990	(1,925)
2. Equity instruments	2,883		397	
3. Mutual funds	864	(3,233)	671	(2,709)
4. Loans				
Total	**5,532**	**(9,759)**	**5,058**	**(4,634)**

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	Mutual funds	Loans
1. Opening balance	**2,065**	**397**	**(2,038)**	
2. Positive changes	**2,917**	**2,486**	**1,744**	
2.1 Fair value increases	1,103	2,486	864	
2.2 Reversal to income statement of negative	1,600		473	
- from impairment	11			
- from disposals	1,589		473	
2.3 Other changes	214		407	
3. Negative changes	**(9,723)**		**(2,074)**	
3.1 Fair value decreases	(6,415)		(1,403)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive	(3,118)		(661)	
3.4 Other changes	(190)		(10)	
4. Closing balance	**(4,741)**	**2,883**	**(2,368)**	

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 327 thousand (net of the related tax effect of Euro 124 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

Section 2 – Own funds and capital adequacy ratios

2.1 OWN FUNDS

A. Qualitative information

Own funds, as the basis of the capital adequacy requirements that banks must satisfy, are calculated in accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26 June 2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework).

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

As of 31 December 2016, the own funds of the Banco di Desio e della Brianza consist of:

Description	31.12.2016	31.12.2015
Common Equity Tier 1 (CET 1)	851,798	829,811
Additional Tier 1 capital (AT1)	4,119	3,576
Tier 2 capital (T2)	181,741	218,223
Total Own Funds	**1,037,658**	**1,051,610**

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

Tier 1 capital

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

	31.12.2016	**31.12.2015**
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	849,095	833,728
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-15	-289
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	849,080	833,439
D. Items to be deducted from CET 1	2,660	2,993
E. Transitional provisions – Impact on CET 1 (+/-)	5,378	-635
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	**851,798**	**829,811**
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 (+/-)	-2,746	-3,289
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**4,119**	**3,576**
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	181,575	218,223
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	166	-
P. Total Tier 2 (T2) (M - N +/- O)	**181,741**	**218,223**
Q. Total Own Funds (F + L + P)	**1,037,658**	**1,051,610**

2.2 - CAPITAL ADEQUACY

A. Qualitative information

Banco Desio's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 82.09% of the Bank's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for about 0.40% and 17.51%, respectively, of Own Funds.

For the purpose of prudential supervision regulations, the Board of the 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. Ahead of formal clarification from the European authorities about the determination of supervisory capital, reference was made to the indications contained in the Bank of Italy communication dated 23 January 2017, which allows "less significant" banks that have exercised the option envisaged in Bank of Italy Circular 285 to continue excluding from own funds the profits and losses on exposures to central administrations recorded in the "Financial assets available for sale" portfolio.

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

- CET 1/risk-weighted assets 16.317%
- T1 /risk-weighted assets 16.396%
- Total Own Funds/risk-weighted assets 19.878%

These values are still higher than the minimum capital required, including the capital conservation buffer, as shown below:

- CET 1/risk-weighted assets 5.125%
- T1 /risk-weighted assets 6.625%
- Total Own Funds/risk-weighted assets 8.625%

In August 2015, at the end of the Supervisory Review and Evaluation Process (SREP), the Supervisory Authority defined the following minimum levels for the consolidated capital ratios:

- **7% for Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 5% (of which 4.5% for the minimum regulatory requirements and 0.5% for additional requirements);
- **8.5% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.7% (of which 6% for the minimum regulatory requirements and 0.7% for additional requirements);
- **10.5% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.9% (of which 8% for the minimum regulatory requirements and 0.9% for additional requirements).

On 9 January 2017, the Bank of Italy notified the Bank about the start of procedures for imposing additional capital requirements at consolidated level following completion of the Supervisory Review and Evaluation Process (SREP) 2016, with application from the report on own funds subsequent to the issue date of the measure (within 90 days of the start of the procedures). Accordingly, the Group will be required to apply the following:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;

- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.7% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

The Board of Directors of Banco di Desio e della Brianza 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.

B. Quantitative information

Consolidated capital adequacy ratios

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	**8,998,601**	**8,920,421**	**4,664,521**	**4,703,340**
1. Standardised methodology	8,998,130	8,919,883	4,664,050	4,702,803
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	471	537	471	537
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**373,162**	**376,267**
B.2 Risk of credit valuation adjustment			**35**	**69**
B.3 Regulatory risk				
B.4 Market risks			**790**	**2**
1. Standardised methodology			790	2
2. Internal models				
3. Concentration risk				
B.5 Operational risk			**43,627**	**44,480**
1. Basic approach			43,627	44,480
2. Standardised approach				
3. Advanced approach				
B.6 Other items				
B.7 Total precautionary requirements			**417,614**	**420,818**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			5,220,172	5,260,230
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			16.317%	15.775%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			16.396%	15.843%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			19.878%	19.992%

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of Managers with strategic responsibilities

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, which also includes information on the Group's stock grant and stock option plans.

2 - 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 Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" section.

Given that, 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 or the results of the Bank;

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 Bank during the period.

There have been no transactions worth mentioning.

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 31 December 2016 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 and/or art. 2391 of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the

[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)

balance of current accounts and of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & Stefano Lado SapA at Banco Desio amounted to Euro 134.1 million, of which Euro 132.8 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

During the 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 IV below).

II - Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year and during board meetings held prior to the date of approval of the financial statements for the year ended 31 December 2016, in compliance with the above Procedure:

Nature of Transaction	Amounts/financial conditions (Euro)	Counterparty
Amendment of the Service Agreement between Fides SpA and Banco di Desio e della Brianza Spa	Amount for 2016 in favour of the Parent Company Euro 109,297.14 (plus VAT, where applicable)	Fides
Current a/c loan – operational maximum	Euro 269,500,000.00	BPS
Revision of the economic conditions for the integrated Group treasury regarding Fides S.p.A	Conditions detailed in the resolution	Fides
Overdraft facility	Overall increase from Euro 405,000,000 to Euro 450,000,000	Fides
Revision of the economic conditions for the integrated Group treasury regarding Fides S.p.A	Conditions detailed in the resolution	Fides
Subscription for "Banca Popolare di Spoleto Spa 2015-2017 warrants"	See the "BPS 2015-2017 Warrant Regulations"	BPS
Review of the Service Agreement between Banca Popolare di Spoleto Spa and Banco di Desio e della Brianza Spa	Amount for 2016 in favour of the Parent Company Euro 6,524,784.76 (VAT included) Amount for 2017 in favour of the Parent Company (determined on the basis of the new estimated commitment) Euro 6,065,682.99 (VAT included)	BPS
Amendment of property lease and agreement for the use of work stations	Fee and consideration detailed in the resolution	BPS
Joining the tax consolidation for the years 2015-2016-2017	Conditions detailed in the resolution	BPS - Fides

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 9.4 of the Report on Operations under the caption "subsidiaries".

III – Associates

The entire equity interest held by the Bank in Chiara Assicurazioni Spa, representing 32.66% of the share capital (4,054,001 ordinary shares) was sold Helvetia Compagnia Svizzera D'Assicurazioni SA on 23 December 2016.

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

This transaction is described further in the Report on Operations during the year ended 31 December 2016.

On 11 January 2016, the Board of Directors of the Parent Company agreed to continue negotiations to sell its investment in Istifid SpA. On 13 April 2016, Banco Desio signed a preliminary agreement for the sale of their entire investment in Istifid S.p.A. to Unione Fiduciaria S.p.A., which was completed on 2 May 2016.

Part of the proceeds from the sale of the Istifid's shares has been reinvested by Banco to purchase 15,050 shares of Unione Fiduciaria S.p.A. (percentage ownership: 1.394% of the share capital).

This transaction is described further in the Report on Operations during the year ended 31 December 2016.

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. These services are now excluded from the scope of application of the rules on Related Party Transactions in consideration of the sale of the business unit that provides such services on 16 January 2015 to Computershare SpA.

IV - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2016 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Bank and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 30 positions existing at 31 December 2016 is about Euro 7.6 million and the related utilisations amount in total to about Euro 5.7 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2016 amounted to Euro 97 million in amounts due to customers (including approximately Euro 85.2 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs I and II above.

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

Balances at 31.12.2016 (in €/million)	**Related parties pursuant to art. 53 CBA (including parties treated in accordance with Art. 136 CBA) and/or art. 2391- bis of the Civil Code (other than the parent company and subsidiaries/associates)**
<u>Lending transactions:</u>	
Amount granted	7.6
Amount drawn down	5.7
<u>Funding transactions:</u>	
C/c and d/r amount (a)	11.8
Amount of securities portfolios (b)	85.2
Total (a+b)	97

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.

<u>Other transactions</u>

With respect to other significant transactions with Officers, as well as parties related to them, the following should be noted:

Nature of transaction	**Board approval**	**Amounts/financial conditions (Euro)**
Amendment of the lending rates applicable to current accounts held in the names of Associated Persons (Related Parties and Connected Persons) pursuant to arts. 53 and 136 respectively of the CFA	19.01.2016	Rates and conditions are detailed in the resolution
Amendment of the lending rates applicable to current accounts held in the names of Associated Persons (Related Parties and Connected Persons) pursuant to arts. 53 and 136 respectively of the CFA	14.04.2016	Rates and conditions are detailed in the resolution

PART I - EQUITY-BASED PAYMENTS

With the substitute payment of an equivalent amount in the month of June to all beneficiaries of the 2011-2013 Stock Grant Plan, the Plan is to be considered to all effects concluded. There are therefore no equity-based payments.

Certification pursuant to art. 154-bis of Legislative Decree 58/98

Gruppo Banco Desio

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Tommaso Cartone, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

– the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their

– effective application during 2016.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2016 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1. the consolidated financial statements:

a. have been prepared 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;

b. agree with the books of account and accounting records;

c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

Desio, 09 February 2017

Chief Executive Officer	Financial Reporting Manager
Tommaso Cartone	Mauro Walter Colombo

Auditors' report

Deloitte.

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

Report on the Financial Statements

We have audited the accompanying financial statements of Banco di Desio e della Brianza S.p.A., which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banco di Desio e della Brianza S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Banco di Desio e della Brianza S.p.A., with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by

Maurizio Ferrero
Partner

Milan, Italy
March 6, 2017

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