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Consolidated interim financial statements at 30 June 2017

Gruppo Banco Desio

Contents

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

Board of directors

Chairman	Stefano Lado
Deputy Chairman	Tommaso Cartone**
Directors	Graziella Bologna* Marina Brogi Nicolò Dubini Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Paolo Gavazzi* Tito Gavazzi* Gerolamo Pellicanò Gigliola Zecchi Balsamo

** Members of the Executive Committee*
*** Director responsible for the Internal Control and Risk Management System*

Board of Statutory Auditors

Chairman	Giulia Pusterla
Acting Auditors	Rodolfo Anghileri Franco Fumagalli Romario
Substitute Auditors	Elena Negonda Erminio Beretta Massimo Celli

General Management

General Manager	Angelo Antoniazzi*
Senior Deputy General Manager	Mauro Walter Colombo
Deputy General Manager "Corporate Affairs"	Maurizio Ballabio

* from 19 July 2017

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 at 30 June 2017 of the Banco Desio Group, to which this *Consolidated interim financial report* refers, includes the following companies:

(*) on 30 June 2017 there was the expiration date for the exercise of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") that had been issued in accordance with a resolution adopted by the Extraordinary Shareholders' Meeting of BPS held on 30 March 2015 (of up to a maximum of 11,104,626) and which were allocated free of charge to the holders of BPS ordinary shares, other than Banco Desio. During the exercise period, from 30 June 2015 to 30 June 2017, 72,898 BPS Warrants were converted into the same number of Conversion Shares, taking the equity interest held by Banco di Desio e della Brianza to 81.67%.

(**) In connection with the structuring of the covered bonds issue programme, on 29 June 2017, Banco di Desio e della Brianza completed the acquisition of a controlling interest in the SPV "Desio OBG S.r.l.", which had been set up ad hoc and which was included in Banco Desio Group as of the same date.

Introduction

This consolidated interim financial report at 30 June 2017 of the Banco Desio Group, made up of the *interim report on operations and the condensed interim financial statements*, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") as well as for the determination of the profit for the period in order to calculate own funds and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 and in particular IAS 34 - Interim Financial Statements, as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

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

This consolidated interim report is subject to a limited review by Deloitte & Touche S.p.A.

Interim report on operations at 30 June 2017

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.06.2017	31.12.2016	Change amount.	%
Total assets	13,441,482	12,365,903	1,075,579	8.7%
Financial assets	2,779,229	1,870,808	908,421	48.6%
Due from banks	211,303	112,838	98,465	87.3%
Loans to customers	9,777,396	9,720,108	57,288	0.6%
Property, plant and equipment	180,131	181,201	-1,070	-0.6%
Intangible assets	17,150	17,843	-693	-3.9%
Due to banks	1,743,487	962,245	781,242	81.2%
Due to customers	8,922,376	8,729,591	192,785	2.2%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,172,078	1,409,792	-237,714	-16.9%
Shareholders' equity (including Net profit/loss for the period) *(1)*	874,271	868,120	6,151	0.7%
Own Funds	1,077,688	1,084,987	-7,299	-0.7%
Total indirect deposits	13,891,198	13,474,129	417,069	3.1%
of which: Indirect deposits from ordinary customers	*8,787,122*	*8,415,302*	*371,820*	*4.4%*
of which: Indirect deposits from institutional customers	*5,104,076*	*5,058,827*	*45,249*	*0.9%*

Income statement *(2)*

Amounts in thousands of Euro	30.06.2017	30.06.2016	change amount.	%
Operating income	209,393	211,084	-1,691	-0.8%
of which: Net interest income	*115,076*	*119,806*	*-4,730*	*-3.9%*
Operating costs	139,469	141,660	-2,191	-1.5%
Result of operations	69,924	69,424	500	0.7%
Profit (loss) from operations after tax	22,734	18,281	4,453	24.4%
Non-recurring profit (loss) after tax	-4,103	4,678	-8,781	n.s.
Net profit for the period *(1)*	18,157	22,289	-4,132	-18.5%

(1) pertaining to the Parent Company;

(2) from the reclassified income statement.

Key figures and ratios

	30.06.2017	31.12.2016	Changes
Capital/Total assets	6.5%	7.0%	-0.5%
Capital/Loans to customers	8.9%	8.9%	0.0%
Capital/Due to customers	9.8%	9.9%	-0.1%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	74.6%	61.6%	13.0%
Common Equity Tier 1 (CET 1) / Risk-weighted assets (Common Equity Tier 1 ratio)	11.1%	10.9%	0.2%
Core Tier 1 capital (T1) / Risk-weighted assets (Tier 1 ratio)	11.2%	11.0%	0.2%
Total Own Funds / Risk-weighted assets (Total capital ratio)	13.4%	13.5%	-0.1%
Financial assets/Total assets	20.7%	15.1%	5.6%
Due from banks/Total assets	1.6%	0.9%	0.7%
Loans to customers/Total assets	72.7%	78.6%	-5.9%
Loans to customers/Direct customer deposits	96.9%	95.9%	1.0%
Due to banks/Total assets	13.0%	7.8%	5.2%
Due to customers/Total assets	66.4%	70.6%	-4.2%
Debt securities in issue and financial liabilities designated at fair value through profit and loss / Total assets	8.7%	11.4%	-2.7%
Direct customer deposits/Total assets	75.1%	82.0%	-6.9%

	30.06.2017	30.06.2016	Changes
Cost/Income ratio	66.6%	67.1%	-0.5%
Net interest income/Operating income	55.0%	56.8%	-1.8%
Result of operations/Operating income	33.4%	32.9%	0.5%
Profit (loss) from operations after tax / Capital *(3)* - annualised *(4)*	5.5%	4.5%	1.0%
ROE (3) - annualised (4) (5)	5.0%	3.0%	2.0%
Profit (loss) from operations before tax/ Total assets (ROA) - annualised (4)	0.5%	0.4%	0.1%

	30.06.2017	31.12.2016	Changes
Net doubtful loans/Loans to customers	4.8%	4.9%	-0.1%
Net impaired loans/Loans to customers	9.0%	9.4%	-0.4%
% Coverage of doubtful loans	57.1%	56.3%	0.8%
% Coverage of doubtful loans, gross of cancellations *(6)*	61.5%	60.9%	0.6%
% Total coverage of non-performing loans *(6)*	47.1%	46.2%	0.9%
% Coverage of non-performing loans, gross of cancellations *(6)*	50.8%	50.0%	0.8%
% coverage of performing loans	0.50%	0.54%	-0.04%

Structure and productivity ratios

	30.06.2017	31.12.2016	Change amount	Change %
Number employees *(7)*	2,349	2,356	-7	-0.3%
Number of branches	268	271	-3	-1.1%
Amounts in thousands of Euro				
Loans and advances to customers per employee *(8)*	4,156	4,113	43	1.0%
Direct deposits from customers per employee *(8)*	4,291	4,290	1	0.0%

	30.06.2017	30.06.2016	Change amount	Change %
Operating income per employee *(8)* - annualised *(4)*	178	179	-1	-0.6%
Result of operations per employee *(8)* - annualised *(4)*	59	62	-3	-4.8%

(3) net of the profit (loss) for the period;

(4) the amount reported at 30.06.2016 is the final figure at the end of 2016;

(5) the annualised ROE at 30.06.2017 does not take into consideration the annualisation of the Net non-recurring operating profit;

(6) also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., reported gross of write-downs;

(7) number of employees at the reference date

(8) based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

The macroeconomic scenario

The macroeconomic picture

International scenario

In early 2017, the world economy consolidated its trend of moderate recovery, positively impacting trends in international trade and manufacturing activity. The current scenario has been complicated by an election cycle that will involve various European economies and by increased difficulties faced by monetary policy in impacting aggregate demand. In March, world trade and industrial output maintained an annual growth path (+5.6% and +3.2%, respectively), while global inflation remained essentially unchanged in comparison to the average figure for 2016 (2.8% versus 2.7%).
Expansion of the economic cycle continued in the main advanced economies, albeit with varying intensity. There has been an expansion in economic activity in the United States, with a positive contribution from the service and construction sectors that exceeded that from the manufacturing sector, but this will need to be sustained in order to avoid inflationary pressures and a further strengthening of the dollar. With the new Trump administration, expectations arose of an expansionary fiscal policy, strengthening forecasts of an acceleration in economic growth. Conversely, the latter has eased in Japan and a contraction has been forecast for the United Kingdom in proximity to the commencement of negotiations for its exit from the EU. The Eurozone has continued along a path of moderate expansion, as has also been the case for the emerging economies. Due to the stimulus provided by economic policy, the Chinese economy has started to benefit from an upturn in foreign demand, with growth rates that have been slightly better than forecast and that have overshadowed concerns about the excessive level of borrowing and the upsurge in the property market.
Overall, the economic expansion cycle is mature, but has not yet triggered significant inflationary effects. In fact, no inflationary pressures have been seen that have caused the central banks to impose restrictive monetary policies and, thus, fiscal policies have remained neutral, while the symptoms of financial imbalance or of overvaluation of the property market remain essentially confined to China. The partial recovery in oil prices has increased global inflationary expectations, the trend of which, however, has remained moderate. Consumer price inflation has remained extremely low in Japan and Europe, while it has risen in the United States. As far as the main emerging nations are concerned, inflation has remained low in China and India, but high in Brazil and Russia.
The global economic outlook is thus conditioned by tensions that could arise from a slowdown in the world economy triggered by China, by the trend in oil prices and by the normalisation of monetary policy in the United States.

United States

There has been a quarterly annualised change in GDP of +1.2% in the first half of the year. Domestic demand is expected to rise with indicators being generally positive for consumer spending, housing and the jobs market. The dynamics of disposable income have remained solid due to the positive trend in employment income and increased purchasing power driven by the moderate level of energy prices. Residential investment has again proved to be the weak link; the performance of the manufacturing sector, which has been more exposed to the dollar and the slowdown in global demand, has differed from the brighter performance of the service and construction sectors. Inflation, however, is forecast to reaccelerate in coming months and the overall outlook for the real economy appears to reflect a cautious continuation of the normalisation of monetary policy. In fact, in addition to the rise in March, is it expected that the Fed will again raise interest rates during the course of 2017. After years of monetary policy predominance, the United States is on the verge of radical change: it is expected that fiscal policy, details of which should be outlined in the second half of 2017, will assume a leading role in economic change over the next two years.

Japan

The scenario for the Japanese economy is better than that for previous quarters; growth has been forecast to be +1.2% in 2017, well above the potential rate (+0.8%). The impact of previously implemented fiscal tightening and the continuous strengthening of the yen last year have held back recovery, by slowing down consumer spending, business investment and exports. As regards consumer spending, the trend in employment income has been improving, with moderate wage increases, but there has continued to be a reduction in the propensity to consume. The accumulation of savings has not decreased due to the need to face new fiscal tightening and to low inflation expectations. As regards the demand for private and public fixed capital formation, the expected weakening of the yen should have a stronger positive impact on profits and capital expenditure than on the trade balance. The scenario remains critical and is characterised by at least three key elements of fragility: reduced capex, dependence on demand from Asian economies and low inflation. The government has outlined a series of measures (increase in public expenditure and business and household subsidies partly aimed at stimulating short term growth and partly at supporting structural growth.

Emerging Economies

The economic outlook for the main emerging nations remains fragile, but the overall prospects for the area have improved. The situation concerning the large oil producers has raised less concern, after the upturn in oil prices settled at around 50 dollars per barrel. With the normalisation of the US economy, the emerging economies will have to deal with an environment that will become less favourable.

In the first quarter, China's GDP grew by +6.9% year-on-year, a slight increase on previous quarters (+6.8%). Price dynamics remained very low (+1.2%). As regards demand, the contribution from foreign trade is expected to remain negative due to a widening in the services deficit, while it is expected that there will be a marginal deceleration in private consumption and expenditure accompanied by an acceleration in public expenditure. Social and economic stability will be important objectives in the year, given that in the autumn it is expected that there will be a reshuffle of the central committee of the communist party. Financial risk control, however, remains one of the government's priorities, along with a renewed aim to cool down the property market.

In India, GDP had grown in March by +6.1%, down on the figure for the previous quarter (+7.0%). Consumer spending was again driven by a favourable performance by the agricultural sector, by a rise in pensions of military personnel and by salaries of public sector employees. Credit to the service sector and personal credit have continued to accelerate, while credit to industry has contracted. Inflation is expected to remain low (3.0% in March), in line with the central bank's objectives.

Encouraging trends have continued in Russia: in fact, GDP returned to growth (+0.3%) after 7 quarters of contraction up to the prior year end. The improvement was driven by the outcome of the US presidential election and the expected trend in oil prices.

In Brazil, the GDP fell again in March (-0.4%) for the 12th consecutive quarter; despite the recession, however, consumer prices have increased (+4.6%). The ongoing political crisis is a clear sign that recovery from the severe economic recession will take a long time.

Eurozone

GDP grew in the first quarter of the year (+2.3%) at a higher rate than the figure for the previous quarter (+2.0%). Within the Eurozone, Germany recorded growth of +2.4%, while France recorded a slight slowdown (+1.8% versus +1.9%). The dispersion of growth between core and peripheral countries is expected to be less accentuated and the economy could benefit, in the second half of the year, from

more robust international demand. The climate of confidence could be influenced by political developments. In Holland and France, the Eurosceptics failed to leave their mark on the recent elections; in Germany, the anti-euro party has been falling in polls. The term of office of the legislature is also coming to an end in Italy and polls show an inconclusive election trend concerning Italy's position within the Eurozone.
Inflation started rising again as of mid-2016; in April, the change in consumer prices stood at 1.9% (with the change in the core component having been 1.2%). The normalisation of inflation will highlight the excess criticality of public debt, thus limiting any action by the ECB. For this reason, it is probable that certain expansionary measures will be reappraised in 2018, without excluding a rise in the interest rate on deposits. Overall, despite there no longer being a favourable trend in energy prices and the fact that fiscal policy contribution will remain minimal, an increase in foreign demand, employment growth and accommodative financial conditions should continue to drive economic growth in the Eurozone.

Italy

In the first quarter of 2017, GDP grew by +1.2% y/y; growth was driven by household consumption (+1.2%) and public sector expenditure (+0.4%). The contribution from gross fixed capital formation remained negative (-0.4%) as was the case for foreign demand that recorded a negative contribution in March (-1.1%), which, however, was offset by a larger positive impact (+1.6%) arising from changes in inventories. The deseasonalised production index decreased slightly in March m/m (-0.4%), but had grown y/y (+1.2%): the components thereof with the highest annual growth were energy (+2.4%), consumer goods (+1.8%), capital goods (+0.6%) and intermediate goods (+0.5%). Manufacturing orders recorded sustained annual growth (+9.2%); retail sales also increased (+0.7%). The improvement in industry and services has also generated benefits in the labour market. In April, the unemployment rate fell to 11.1% (versus 11.8% in April 2016) and, again in April, the harmonised index of consumer prices had risen (1.9% versus 1.4%), while core inflation (excluding non-processed foods and energy products) came to 1.1% (versus 0.7%).

Capital markets and the banking system in Italy

Money and financial markets

The ECB kept the policy rates unchanged in June (reference rate of zero, -0.40% on deposits). By contrast, the Fed announced a further rise of 0.25 points; the new range is therefore between +1.00% and +1.25%. Over the year, the US central bank expects to make a further increase (+0.25%). In the first ten days of June, the 3-month Euribor was negative again and at an all-time low (-0.33%); the 10-year IRS rate, on the other hand, stood at +0.82%, 7 bps up than in December (+0.75%).
On the bond market, 10-year benchmark rates rose in the USA (+2.30%, formerly +2.15% in December) and in the Eurozone; in Germany, the benchmark rate came to +0.25% (from +0.16% in December), while in Italy it was +2.20% (from +1.94%).
International share prices grew on a monthly and yearly basis: The Dow Jones Euro Stoxx index rose by +2.7% m/m (+15.5% y/y), the Standard & Poor's 500 index rose by +1.6% (+15.9% y/y) and the Nikkei 225 index climbed by +5.1% (+19% y/y). The major European stock market indices improved during the month; the FTSE Mib index rose by +5.4% (+18.9% y/y); in France, the Cac40 index grew by +4.3% (+22.3% y/y) and, in Germany, the Dax30 index increased by +3.5% (+26.4% y/y). The main banking indicators have largely followed the monthly and annual trends of the principal equity indices; the Italian FTSE Banks rose by +11% m/m (+14.5% y/y), the Dow Jones Euro Stoxx Banks by +7.4% m/m (+32.2% y/y) and the S&P 500 Banks rose by +0.8% m/m (+33.1% y/y).

Banking markets

With regard to the banking market, deposits from resident customers in May was positive (+0.3% compared with -0.5% in December). Analysing this, the principal components were in line with previously readings: short-term deposits rose (+4.3%, compared with +4.9% in December) and bonds fell (-14.5%, compared with -17.9% in December). The rise in volumes was accompanied by a slight fall in the overall remuneration (+0.95%, compared with +0.98% in December). In terms of lending, the latest available data confirms the recovery in loans to the private sector (+0.8%, compared with +0.4% at the end of 2016); this was led by loans to households (+2.4%, compared with +1.9% in December), while loans to businesses were essentially unchanged (+0.2%, zero in December). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In May, rates on new loans to households and businesses reached their historical minimum (+2.79%). Within this, the mortgage rate for home loans was +2.12%, while the rate for business loans was +1.56%.

The distribution network

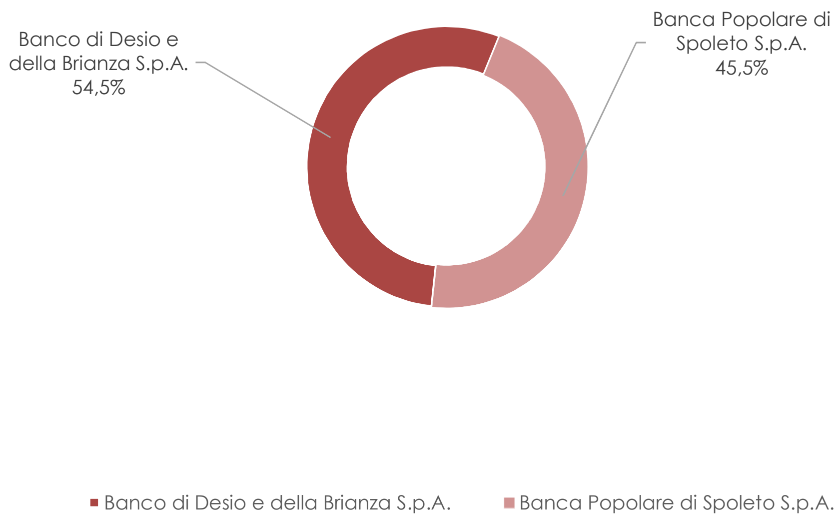
The Group's distribution network at 30 June 2017 consists of 268 branches, including 146 in the Parent Company Banco di Desio e della Brianza and 122 of Banca Popolare di Spoleto.

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, Emilia, Piedmont, Liguria, Veneto, Tuscany and Lazio and now, thanks to Banca Popolare di Spoleto, into Umbria, Marche and Abruzzo as well.

As part of the rationalisation of the distribution network, Banca Popolare di Spoleto approved the closure of its branches of Perugia – Castel del piano and Rome – Corso Trieste from 24 July 2017.

The following chart gives a breakdown of the overall distribution network by Group company with the percentage represented by the region at 30 June 2017.

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



Significant events during the period

Increase in capital and renewal of the corporate bodies of Fides S.p.A.

On 21 March 2017, the Extraordinary Shareholders' Meeting of Fides S.p.A. authorised an increase in share capital for payment from Euro 25 million to Euro 35 million by the issue of 10,000,000 ordinary shares, par value Euro 1.00 each, that were subscribed for in full and paid for on that date by the Parent Company (sole shareholder).

On the same date, the Ordinary Shareholders' Meeting renewed the Board of Directors for a three-year period (the Board of Statutory Auditors was renewed for three years in the prior year).

Renewal of the corporate bodies of Banca Popolare di Spoleto S.p.A.

On 30 March 2017, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019.

On 17 July 2017, the Board of Directors of Banca Popolare di Spoleto approved the appointment of Ippolito Fabris as General Manager with effect from 19 July 2017. Ippolito Fabris, previously Deputy General Manager of BPS, has been identified in a logic of management continuity (from 2014 to 2016 he had already acted as Deputy General Manager of Corporate Affairs of the Parent Company Banco di Desio e della Brianza and, prior to that, he had held senior positions in other banks of a comparable size).

At the same time, Massimo Barazzetta was appointed as Deputy General Manager of BPS, having previously headed up the Parent Company's Organisation and Systems Department (prior to that, he had held the position of head of the Internal Audit Department).

Ippolito Fabris replaces Angelo Antoniazzi who has been appointed as General Manager of Banco di Desio e della Brianza from 19 July 2017.

Renewal of directors and officers of Banco di Desio e della Brianza S.p.A.

On 6 April 2017, the Ordinary Shareholders' Meeting of the Parent Company appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019. The composition of these bodies - after appropriate resolutions had been passed by the Board that met at the end of the Shareholders' Meeting - is that reported in the initial part of this document and reflects the events mentioned below.

On 11 July 2017, the Board of Directors of the Parent Company approved the appointment of Angelo Antoniazzi as General Manager of Banco di Desio e della Brianza, effective as of 19 July 2017, thus taking over from Luciano Camagni, who, in accordance with a termination agreement entered into on 11 July, has ceased to act as General Manager and to hold all the positions held with and on behalf of Banco Desio Group.

The professional profile of Angelo Antoniazzi is characterised by extensive experience in banking and finance gained in senior positions at Group banks, and also as General Manager of Banca Popolare di Spoleto from 2014 when the bank became part of the Banco Desio Group.

Subordinated loan granted to Banca Popolare di Spoleto

On 22 June 2017, the Board of Directors of the Parent Company approved the granting, to the subsidiary Banca Popolare di Spoleto (BPS), of a fixed term (10 year) subordinated loan of Euro 18 million, aimed at strengthening the latter's "Tier 2 capital", pursuant to European Union supervisory regulations, in order to enable its full compliance with the provisions of EU Regulation no. 575/2013 of 26 June 2013, concerning prudential requirements for credit institutions and investment firms, having taken account of transitional arrangements for the application thereof.

Given the fact that BPS has not been assigned a stand-alone rating, the loan was granted by the Parent Company at the market conditions that it would have obtained with its own rating, taking account, however, of the subsidiary's specific situation vis-à-vis Banco Desio Group as a whole. The foregoing has not been presented in this report due to the fact that it is an intercompany transaction.

Sale of the non-performing loan (NPL) portfolios

In line with the pro-active strategy for the management of non-performing loans previously disclosed by Banco Desio Group as part of the prior year financial reporting process and in compliance with the guidelines issued by the European Central Bank, as at 30 June 2017, a number of transactions had been entered for the sale to specialist intermediaries of loan portfolios consisting mainly of secured non-performing loans:

- the Banco Desio portfolio, with a total nominal value of about Euro 14.5 million sold for about Euro 6.5 million;
- the Banca Popolare di Spoleto portfolio, with a total nominal value of about Euro 25.8 million sold for about Euro 11.8 million.

These disposals, taking in considerations further provisions of Euro 0.7 million with respect to the estimates made at the end of the prior year, recognised additional income of about Euro 0.8 million with respect to the carrying amounts of the loans sold. As a result, a net positive difference of Euro 0.1 million was recorded, gross of tax effect.

The "Warrant Banca Popolare di Spoleto S.p.A. 2015 – 2017" exercise period ended

On 30 June 2017 there was the expiration date for the exercise of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") that had been issued in accordance with a resolution adopted by the Extraordinary Shareholders' Meeting of BPS held on 30 March 2015 (of up to a maximum of 11,104,626) and which were allocated free of charge to the holders of BPS ordinary shares - other than Banco Desio – at a ratio of 12 BPS Warrants for every 31 BPS ordinary shares held; the BPS Warrants granted the right to subscribe newly issued BPS ordinary shares (the "Conversion Shares") at a ratio of 1 ordinary share for every 1 BPS Warrant exercised at a subscription price of Euro 1.812 per share. During the exercise period, from 30 June 2015 to 30 June 2017, 72,898 BPS Warrant were converted into the same number of conversion shares; as a result the investment held by Banco di Desio e della Brianza is 81.67%.

Covered bond issue Programme (OBG)

In connection with the structuring and implementation of the covered bonds issue programme approved by the Board of Directors pursuant to art. 7-bis of Law 130/99 (the "Programme"), on 29 June 2017, the Parent Company completed the acquisition of a 60% equity interest in the SPV "Desio OBG S.r.l.", which had been set up ad hoc and which was included in Banco Desio Group as of the same date.

The Programme, which was aimed at obtaining benefits in terms of funding (diversification of deposits, reduction of the cost thereof and lengthening of the maturity of sources of funding), is multi-seller in nature with the consequence that, in addition to the Parent Company, Banco di Desio e della Brianza, it is also envisaged that the subsidiary Banca Popolare di Spoleto will assume a role as seller and lender to the SPV. The Parent Company may thus issue covered bonds for a total amount that does not exceed, from time to time, Euro 3 billion. The above maximum amount may be increased as envisaged by the Programme.

Subsequent to 30 June 2017, the two banks entered into agreements relating to the sale to the SPV of residential mortgage loans originated by the former. On 21 July, Banco di Desio e della Brianza obtained approval for the Programme's "Base Prospectus".

As is customary for transactions of this nature, the agreements entered into under the Programme are subject to a termination clause whereby, if the Programme does not commence (by means of the issue of covered bonds) within the prescribed time limits, the agreements shall be definitively deemed ineffective.

Fondo Atlante

At the reporting date of 30 June 2017, the Parent Company had invested an amount of Euro 6.1 million relating to calls received from time to time, against a total commitment subscribed of Euro 7.0 million.

In view of recent developments concerning the principal equity investments held by the Fund, by applying "look through" measurement, an impairment loss was recognised in the period of Euro 3.6 million, gross of the tax effect. This amount, together with the impairment loss recognised in the prior period of Euro 2.1 million, reflects a complete write-down of the carrying amount of the above equity investments in the two Veneto banks as a consequence of their subjection to a compulsory administration liquidation procedure.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

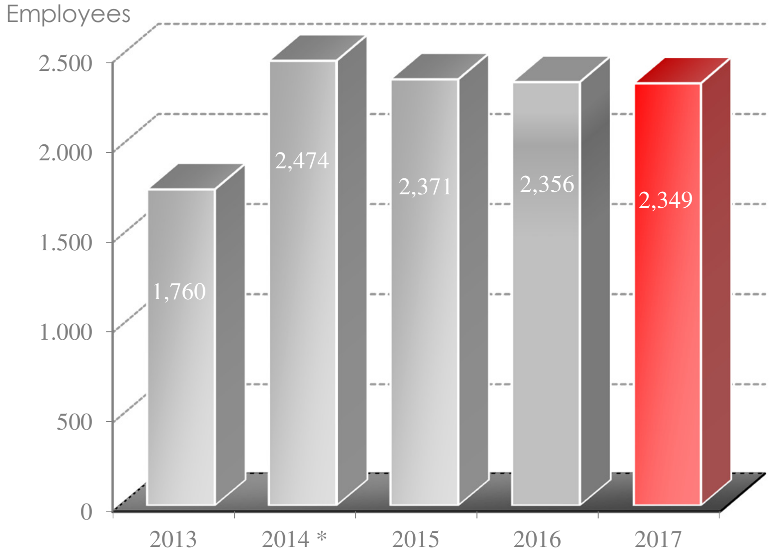
In compliance with IFRIC 21, Group banks already recorded in the March of 31 the current year's ordinary contribution to the Single Resolution Mechanism of Euro 2017 million, of which Euro 3.5 million by the Parent Company and Euro 2.4 million by Banca Popolare di Spoleto, given that the "obligating event" under the rules for determination of the contribution to the Single Resolution Mechanism contained in Regulation 1.1/63/EU had taken place. Following the relevant communications by the National Resolution Authority, the contribution was paid in June.

Again in compliance with IFRIC 21, at 30 September 2016 Group banks will record the ordinary contribution to the Deposit Guarantee Scheme (DGS) for the current year, when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

Human resources

At 30 June 2017, the Group had 2,349 employees, a decrease of 7 people (-0.3%) compared with the end of the previous period.
The trend in the Group's workforce in recent years is shown by the graph below.

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



* Banca Popolare di Spoleto joined the Banco Desio Group in 2014

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

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

No. of Employees	**30.06.2017**	**%**	**31.12.2016**	**%**	**Change amount**	**%**
Managers	34	1.4%	36	1.5%	-2	-5.6%
3rd and 4th level middle managers	481	20.5%	477	20.0%	4	0.8%
1st and 2nd level middle managers	622	26.5%	616	26.1%	6	1.0%
Other personnel	1,212	51.6%	1,227	52.1%	-15	-1.2%
Group employees	**2,349**	**100.0%**	**2,356**	**100.0%**	**-7**	**-0.3%**

Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 June 2017 reached Euro 24.0 billion, representing an increase of some Euro 0.4 billion with respect to the 2016 year end balance (1.6%), mainly attributable to indirect deposits (+3.1%) partly offset by the slight decrease in direct one (-0.4%).

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

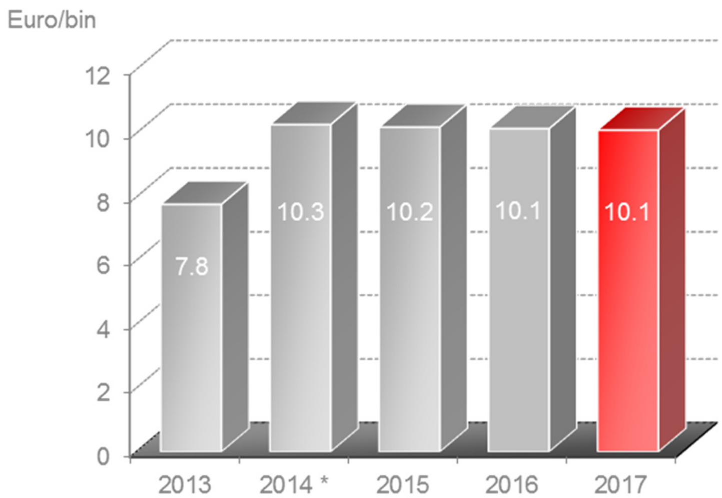
Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**30.06.2017**	**%**	**31.12.2016**	**%**	**Change amount**	**%**
Due to customers	8,922,376	37.2%	8,729,591	36.9%	192,785	2.2%
Debt securities in issue and Financial liabilities desigr	1,172,078	4.9%	1,409,792	6.0%	-237,714	-16.9%
Direct deposits	**10,094,454**	**42.1%**	**10,139,383**	**42.9%**	**-44,929**	**-0.4%**
Ordinary customer deposits	8,787,122	36.6%	8,415,302	35.7%	371,820	4.4%
Institutional customer deposits	5,104,076	21.3%	5,058,827	21.4%	45,249	0.9%
Indirect deposits	**13,891,198**	**57.9%**	**13,474,129**	**57.1%**	**417,069**	**3.1%**
Total customer deposits	**23,985,652**	**100.0%**	**23,613,512**	**100.0%**	**372,140**	**1.6%**

Direct deposits

As already mentioned, direct deposits at the end of the first six months amounted to Euro 10.1 billion, a decrease of Euro 0.4 billion due to the reduction in the balance of debt securities in issue of Euro 0.2 billion (-16.9%), partly offset by the rise in amounts due to customers of Euro 0.2 billion (+2.2%). The trend in direct deposits in recent years is shown in the following chart.

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



* Banca Popolare di Spoleto joined the Banco Desio Group in 2014

Indirect funding

Overall, at 30 June 2017 indirect funding posted an increase of 3.1% compared with the end of the previous year, rising to Euro 13.9 billion.
In particular, this was attributable to deposits from ordinary customers, up by about Euro 0.4 billion (+4.4%), due to the performance of assets under management, as partially offset by a decrease in assets under administration (-1.9%).

Overall, indirect funding recorded an increase of 0.9% coming in at Euro 5.1 billion.

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

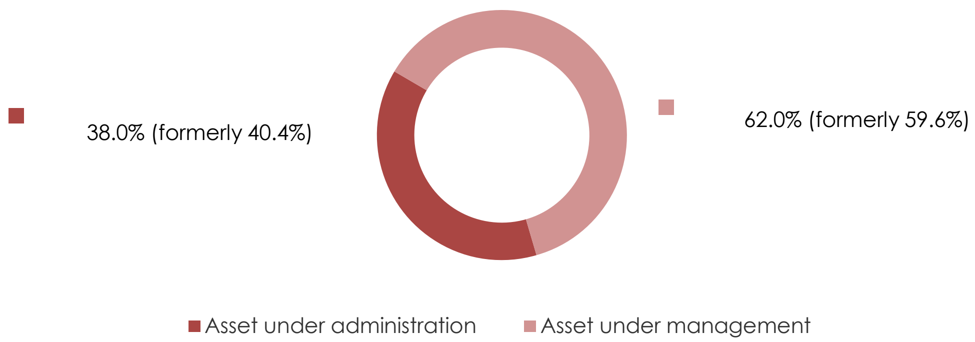
Table no. 3 - **INDIRECT FUNDING**

Amounts in thousands of Euro	30.06.2017	%	31.12.2016	%	Change Amount	Change %
Assets under administration *(1)*	**3,335,962**	**24.0%**	**3,401,030**	**25.2%**	**-65,068**	**-1.9%**
Assets under management	**5,451,160**	**39.3%**	**5,014,272**	**37.3%**	**436,888**	**8.7%**
of which: Mutual funds and Sicavs	*2,181,626*	*15.7%*	*1,869,166*	*13.9%*	*312,460*	*16.7%*
Managed portfolios	*926,812*	*6.7%*	*857,950*	*6.4%*	*68,862*	*8.0%*
Bancassurance	*2,342,722*	*16.9%*	*2,287,156*	*17.0%*	*55,566*	*2.4%*
Ordinary customer deposits *(1)*	**8,787,122**	**63.3%**	**8,415,302**	**62.5%**	**371,820**	**4.4%**
Institutional customer deposits *(2)*	**5,104,076**	**36.7%**	**5,058,827**	**37.5%**	**45,249**	**0.9%**
Indirect deposits *(1)(2)*	**13,891,198**	**100.0%**	**13,474,129**	**100.0%**	**417,069**	**3.1%**

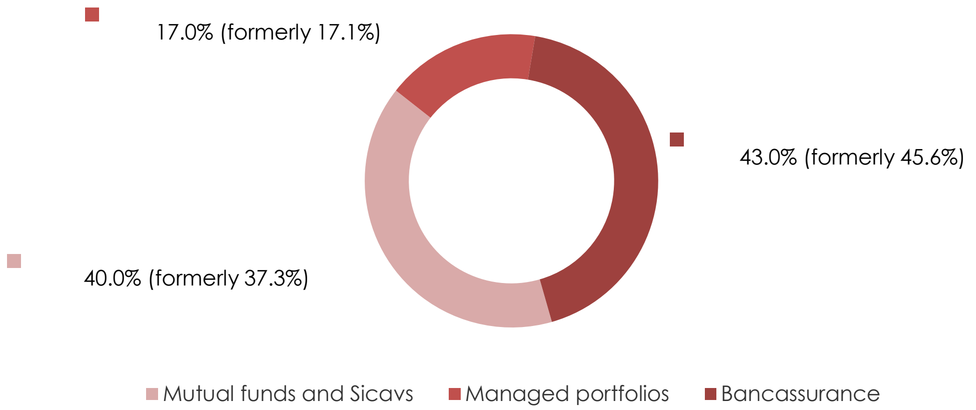
(1) the totals at 30.06.2017 are stated net of bonds issued by the Parent Company and placed with the customers of Banca Popolare di Spoleto S.p.A. totalling 51.2 million euro (66.4 million euro at 31.12.2016);
(2) institutional customer funding at 30.06.2017 include securities of the Bancassurance segment 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 31.12.2016).

The graph below shows the breakdown of indirect funding from ordinary customers by sector at 30 June 2017. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how, although the "life" bancassurance component constitutes the largest share, mutual funds and sicavs also increase.

Graph no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2017**



Graph no. 5 - ***BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2017***

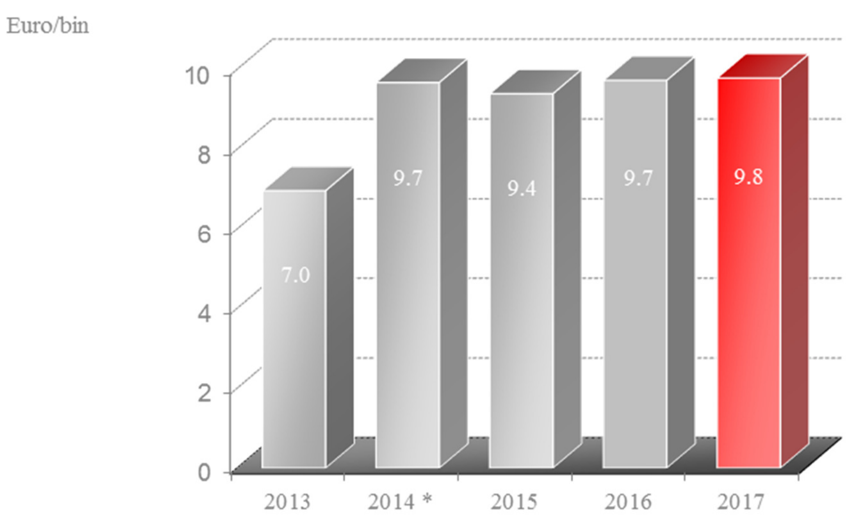


Loans to customers

The total value of loans to ordinary customers at the end of the first half of the year comes to Euro 9.8 billion, with an increase on the end of 2016 (+0.6%).

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

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



* Banca Popolare di Spoleto joined the Banco Desio Group in 2014

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

Amounts in thousands of Euro	30.06.2017	%	31.12.2016	%	Change Amount	Change %
Current accounts	1,790,988	18.3%	1,723,130	17.7%	67,858	3.9%
Mortgages and other long-term loans	6,861,128	70.2%	6,575,882	67.7%	285,246	4.3%
Other	1,117,149	11.4%	1,209,415	12.4%	-92,266	-7.6%
Loans to ordinary customers	**9,769,265**	**99.9%**	**9,508,427**	**97.8%**	**260,838**	**2.7%**
Loans to institutional customers	**8,131**	**0.1%**	**211,681**	**2.2%**	**-203,550**	**-96.2%**
Loans to customers	**9,777,396**	**100.0%**	**9,720,108**	**100.0%**	**57,288**	**0.6%**

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of the first half-year continues to reflect a high degree of risk diversification, which is in line with the end of last year, as can be seen in the following table.

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

Number of customers (1) (2)	**30.06.2017**	**31.12.2016**
First 10	1.27%	1.28%
First 20	2.20%	2.21%
First 30	2.97%	2.96%
First 50	4.24%	4.20%

(1) according to the figures of the Parent Company and the subsidiary Banca Popolare di Spoleto S.p.A.

The total amount of net non-performing loans made up of doubtful loans, unlikely to pay loans, non-performing past due and/or overdrawn exposures, came to Euro 877.9 million at 30 June 2017, net of adjustments of Euro 780.2 million, an increase of Euro 32.3 million compared with 31 December 2016, also as a result of the sale of NPL in the reference period at a price in line with recovery estimated as part of the credit valuation process.

In particular, net doubtful loans totalled Euro 469.8 million, unlikely to pay loans Euro 392.2 million and non-performing past due and/or overdrawn exposures Euro 15.9 million.

The following table summarises the gross and net indicators relating to credit risk, showing figures that are decreasing with respect to those at the end of the previous year, due to the slowdown of credit impairment (although with high coverage level) and to the mentioned sale of NPL for Euro 40.3 million gross (of which Euro 25.8 related to BPS).

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

% of gross loans (1)	**30.06.2017**	**31.12.2016**
Gross non-performing loans to customers	15.64%	16.05%
of which:		
- gross doubtful loans	10.34%	10.45%
- unlikely to pay, gross	5.13%	5.41%
- non-performing past due and/or overdrawn exposures, gross	0.17%	0.18%
% of net loans	**30.06.2017**	**31.12.2016**
Net non-performing loans to customers	8.98%	9.36%
of which:		
- net doubtful loans	4.80%	4.95%
- unlikely to pay, net	4.01%	4.24%
- non-performing past due and/or overdrawn exposures, net	0.16%	0.17%

(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 for the coverage of impaired loans are reported below, also considering, for NPL, the amount of direct write-downs made over the years, together with those relating to performing loans, which show levels of coverage that are higher than the end of the previous year for impaired loans.

Table no. 7 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS**

% Coverage of non-performing and performing loans (1)	**30.06.2017**	**31.12.2016**
% Coverage of doubtful loans	57.12%	56.34%
% Coverage of doubtful loans, gross of cancellations	61.51%	60.87%
% Total coverage of impaired loans	47.05%	46.24%
% Coverage of impaired loans, gross of cancellations	50.76%	50.01%
% Coverage of performing loans	0.50%	0.54%

(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 securities portfolio and interbank position

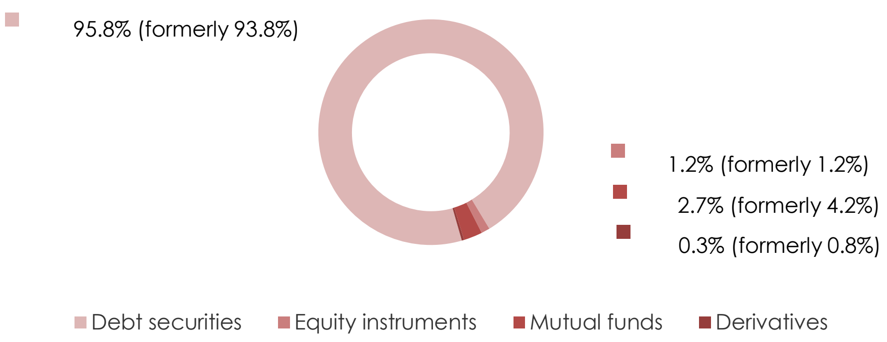
Securities portfolio

At 30 June 2017, the Group's total financial assets amounted to some Euro 2.8 billion, an increase of some Euro 0.9 billion compared with the end of 2016 (+48.6%).

The Held to Maturity Portfolio, which amounted to Euro 0.8 billion at 30 June 2017, was reinstated during the first half and consists of government securities and bonds diversified by issuer, geographical area and type of interest rate, with a maximum maturity of 5 years.

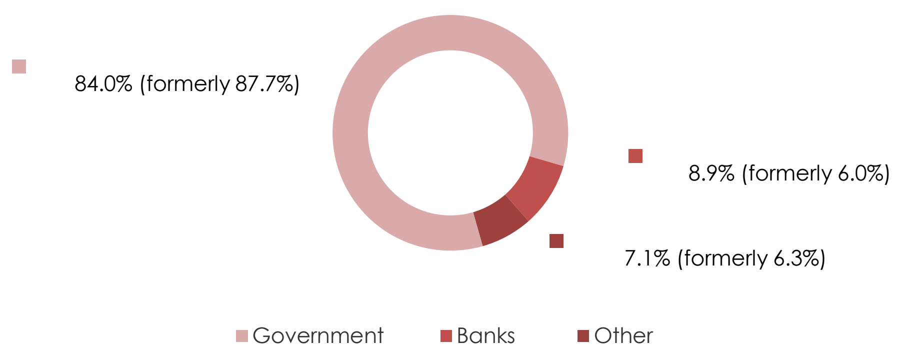
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (95.8%) of the investments still consist of debt securities.

Chart no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2017 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the first half of the year, 84.0% relates to government securities, 8.9% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

Chart no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2017 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2017 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		30.06.2017							31.12.2016	
		Italy	Portugal	France	Spain	Canada	USA	Total	Italy	Total
Financial assets available for trading	Nominal value	17,308						17,308	3,680	3,680
	Book value	16,794						16,794	2,798	2,798
Financial assets available for sale	Nominal value	1,746,226				3,382	4,381	1,753,989	1,636,226	1,636,226
	Book value	1,735,350				3,365	4,341	1,743,055	1,638,237	1,638,237
Financial assets held to maturity	Nominal value	320,000	30,000	60,000	160,000			570,000		
	Book value	321,793	30,432	59,925	162,411			574,561		
Sovereign debt	**Nominal value**	**2,083,534**	**30,000**	**60,000**	**160,000**	**3,382**	**4,381**	**2,341,297**	**1,639,906**	**1,639,906**
	Book value	**2,073,937**	**30,432**	**59,925**	**162,411**	**3,365**	**4,341**	**2,334,411**	**1,641,035**	**1,641,035**

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

Amounts in thousands of Euro		Italy	Portugal	France	Spain	Canada	USA	30.06.2017 Nominal value	Book value
Financial assets available for trading	up to 1 year	0	0	0	0			0	0
	1 to 3 years	2	0	0	0			2	0
	3 to 5 years	15,001	0	0	0			15,001	15,313
	over 5 years	2,306	0	0	0			2,306	1,481
	Total	17,308	0	0	0	0	0	17,308	16,794
Financial assets available for sale	up to 1 year	50,000	0	0	0	0	0	50,000	52,306
	1 to 3 years	46,500	0	0	0	3,382	4,381	54,263	55,597
	3 to 5 years	590,000	0	0	0	0	0	590,000	586,408
	over 5 years	1,059,726	0	0	0	0	0	1,059,726	1,048,744
	Total	1,746,226	0	0	0	3,382	4,381	1,753,989	1,743,055
Financial assets held to maturity	up to 1 year	0	0	0	0			0	0
	1 to 3 years	0	0	0	0			0	0
	3 to 5 years	320,000	0	60,000	160,000			540,000	544,129
	over 5 years	0	30,000	0	0			30,000	30,432
	Total	320,000	30,000	60,000	160,000	0	0	570,000	574,561
Sovereign debt	**up to 1 year**	**50,000**	**0**	**0**	**0**			**50,000**	**52,306**
	1 to 3 years	**46,502**	**0**	**0**	**0**			**54,265**	**55,597**
	3 to 5 years	**925,001**	**0**	**60,000**	**160,000**			**1,145,001**	**1,145,850**
	over 5 years	**1,062,032**	**30,000**	**0**	**0**			**1,092,032**	**1,080,657**
	Total	**2,083,534**	**30,000**	**60,000**	**160,000**	**0**	**0**	**2,341,297**	**2,334,410**

Net interbank position

The Group's net interbank position at 30 June 2017 is negative for Euro 1.5 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.8 billion. The changes reflect the allocation to Banco Desio Group of Euro 800 million of long-term liquidity by the ECB as part of "TLTRO II" (the total balance at 30 June 2017 is Euro 1,600 million).

Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2017, including net profit for the period, amounts to Euro 874.3 million, compared with Euro 868.1 million at the end of 2016.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2017, 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 30.06.2017**

Amounts in thousands of Euro	Shareholders' equity	*of which: Net profit (loss) for the period*
Parent Company balances at 30 June 2017	***872,469***	***19,549***
Effect of consolidation of subsidiaries	1,802	5,248
Dividends declared during the period	-	-6,640
Consolidated balances at 30 June 2017	**874,271**	**18,157**

Shareholders' equity calculated in accordance with the Bank of Italy's regulatory provisions, defined as Own Funds, with an expected pay out of 40%, amounts at 30 June 2017 to Euro 1,077.7 million (CET1 + AT1 of Euro 901.3 million + T2 of Euro 176.4 million), and shows a decrease of Euro 7.3 million compared with one at the end of the previous year of Euro 1,085.0 million, mainly due to the reduction in the amount attributable to own funds of subordinated loans due to the amortisation, as partly offset by the profit for the period included in the calculation of CET1.

At 30 June 2017, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 11.1% (10.9% at 31 December 2016). The Tier 1 ratio (T1/Risk-weighted assets) was 11.2% (11% at 31 December 2016), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.4% (13.5% at 31 December 2016).

On 4 April 2017, the Bank of Italy notified the Parent Company about the completion of the process to determine the additional capital requirements following the periodic prudential review (SREP 2016). These requirements will apply from the reporting of own funds at 30 June 2017. The capital decision taken by the Bank of Italy essentially confirms that already disclosed to the public on approval of the draft financial statements at 31 December 2016 and, therefore, the Group will be required to apply the following coefficients:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter TUB - 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 TUB - 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;
- **9.75% for the Total Capital ratio**, binding - pursuant to art. 67-ter TUB - 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 capital reserve, additional to the minimum regulatory requirements, has the objective of providing 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.

The following table compares the consolidated capital requirements at 30 June 2017 with the minimum requirements at that date.

	Banco Desio Group	SREP	difference
CET 1	11.06%	6.00%	+ 5.06%
TIER 1	11.19%	7.60%	+ 3.59%
TOTAL CAPITAL RATIO	13.38%	9.75%	+ 3.63%

Reclassified income statement

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

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 220 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 210 "Net adjustments to intangible assets" included in "Operating expenses";
- the part 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 caption "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances**"** 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 "Cost of credit", both captions coming after the "Result of operations";
- extraordinary provisions and expenses or which are "una tantum", as well as gains on disposal of financial assets available for sale, have been reclassified to the caption "Extraordinary provisions for risks and charges/other provisions and expenses/gains on disposal of financial assets held to maturity";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 290 "Income tax for the period on current operations" to "Income taxes on non-recurring items."

As shown in the following table, which presents the reclassified income statement with prior period comparatives, the first half of 2017 closed with a Net profit attributable to the Parent Company of Euro 18.2 million, compared with a net profit of Euro 22.3 million reported for the first half of the previous year; this is attributable, first of all, to the "*Profit (loss) from operations after tax*", which has increased by approximately 4.5 million (+ 24.4%) compared to the figure for the period ended 30 June 2016, to which has to be added the "*Non-recurring profit (loss) after tax*", which was a loss of Euro 4.1 million for the period ended 30 June 2017 due to non-recurring cost components, compared to income of Euro 4.7 million for the period ended 30 June 2016.

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

Captions *Amounts in thousands of Euro*		30.06.2017	30.06.2016	Change Amount	%
10+20	Net interest income	115,076	119,806	-4,730	-3.9%
70	Dividends and similar income	610	974	-364	-37.4%
	Profit (loss) from equity investments in associates	0	287	-287	-100.0%
40+50	Net commission income	80,020	74,895	5,125	6.8%
80+90+100+110	Net results on financial assets and liabilities	6,002	6,465	-463	-7.2%
220	Other operating income/expense	7,685	8,657	-972	-11.2%
	Operating income	**209,393**	**211,084**	**-1,691**	**-0.8%**
180 a	Payroll costs	-89,373	-88,897	-476	0.5%
180 b	Other administrative costs	-44,010	-46,583	2,573	-5.5%
200+210	Net adjustments to property, plant and equipment and intangible asse	-6,086	6,180	94	-1.5%
	Operating costs	**-139,469**	**-141,660**	**2,191**	**-1.5%**
	Result of operations	**69,924**	**69,424**	**500**	**0.7%**
130a+100a	Cost of credit	-30,103	-42,550	12,447	-29.3%
130 b	Net impairment adjustments to financial assets available for sale	-3,057	-142	-2,915	n.s.
130 d	Net impairment adjustments to other financial assets	-24	209	-233	n.s.
190	Net provisions for risks and charges	-2,330	-3,326	996	-29.9%
	Profit (loss) from operations before tax	**34,410**	**23,615**	**10,795**	**45.7%**
290	Income taxes on current operations	-11,676	-5,334	-6,343	118.9%
	Profit (loss) from operations after tax	**22,734**	**18,281**	**4,453**	**24.4%**
240+270	Profit (loss) from investments and disposal of investments	41	4,817	-4,776	-99.1%
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities	-5,427	1	-5,428	n.s.
	Non-recurring profit (loss) before tax	**-5,386**	**4,818**	**-10,204**	**n.s.**
	Income taxes from non-recurring items	1,283	-140	1,424	n.s.
	Non-recurring profit (loss) after tax	**-4,103**	**4,678**	**-8,781**	**n.s.**
320	**Net profit (loss) for the period**	**18,631**	**22,959**	**-4,328**	**-18.9%**
330	Minority interests	-474	-670	196	-29.3%
340	**Parent Company net profit (loss)**	**18,157**	**22,289**	**-4,132**	**-18.5%**

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.

Captions		As per financial statements	Tax/expense recoveries	Profit (Losses) from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Impairment adjustments to financial assets	Income taxes	Reclassified income statement
Amounts in thousands of Euro		**30.06.2017**								**30.06.2017**
10+20	Net interest income	115,076								115,076
70	Dividends and similar income	610								610
	Profit (loss) from equity investments in associates			0						0
40+50	Net commission income	80,020								80,020
80+90+100+110	Net results on financial assets and liabilities	4,414				-95		1,683		6,002
220	Other operating income/expense	23,796	-17,251		1,140					7,685
	Operating income	**223,916**	**-17,251**	**0**	**1,140**	**-95**	**0**	**1,683**	**0**	**209,393**
180 a	Payroll costs	-89,406					33			-89,373
180 b	Other administrative costs	-61,261	17,251				0			-44,010
200+210	Net adjustments to property, plant and equipment and intangible asset:	-4,946			-1,140					-6,086
	Operating costs	**-155,613**	**17,251**	**0**	**-1,140**	**0**	**33**	**0**	**0**	**-139,469**
	Result of operations	**68,303**	**0**	**0**	**0**	**-95**	**33**	**1,683**	**0**	**69,924**
130a+100a	Cost of credit	-29,838				95	-360			-30,103
130 b	Net impairment adjustments to financial assets available for sale	-9,008						5,951		-3,057
130 d	Net impairment adjustments to other financial assets	2,216						-2,240		-24
190	Net provisions for risks and charges	-2,690					360			-2,330
	Profit (loss) from operations before tax	**28,983**	**0**	**0**	**0**	**0**	**33**	**5,394**	**0**	**34,410**
290	Income taxes on current operations	-10,393							-1,283	-11,676
	Profit (loss) from operations after tax	**18,590**	**0**	**0**	**0**	**0**	**33**	**5,394**	**-1,283**	**22,734**
240+270	Profit (loss) from investments and disposal of investments	41		0						41
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities						-33	-5,394		-5,427
	Non-recurring profit (loss) before tax	**41**	**0**	**0**	**0**	**0**	**-33**	**-5,394**	**0**	**-5,386**
	Income taxes from non-recurring items								1,283	1,283
	Non-recurring profit (loss) after tax	**41**	**0**	**0**	**0**	**0**	**-33**	**-5,394**	**1,283**	**-4,103**
320	**Net profit (loss) for the period**	**18,631**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**18,631**
330	Minority interests	-474								-474
340	**Parent Company net profit (loss)**	**18,157**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**18,157**

Amounts in thousands of Euro		As per financial statements 30.06.2016	Tax/expense recoveries	Profit (Losses) from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Impairment adjustments to financial assets	Income taxes	Reclassified income statement 30.06.2016
10+20	Net interest income	119,806							0	119,806
70	Dividends and similar income	974								974
	Profit (loss) from equity investments in associates			287						287
40+50	Net commission income	74,895								74,895
80+90+100+110	Net results on financial assets and liabilities	7,570				-1,105				6,465
220	Other operating income/expense	25,063	-17,505		1,099					8,657
	Operating income	**228,308**	**-17,505**	**287**	**1,099**	**-1,105**	**0**	**0**	**0**	**211,084**
180 a	Payroll costs	-89,069					172			-88,897
180 b	Other administrative costs	-65,659	17,505				1,571			-46,583
200+210	Net adjustments to property, plant and equipment and intangible assets	-5,081			-1,099					-6,180
	Operating costs	**-159,809**	**17,505**	**0**	**-1,099**	**0**	**1,743**	**0**	**0**	**-141,660**
	Result of operations	**68,499**	**0**	**287**	**0**	**-1,105**	**1,743**	**0**	**0**	**69,424**
130a+100a	Cost of credit	-43,447				1,105	-208			-42,550
130 b	Net impairment adjustments to financial assets available for sale	-142								-142
130 d	Net impairment adjustments to other financial assets	1,163					-1,129	175		209
190	Net provisions for risks and charges	-2,744					-582			-3,326
	Profit (loss) from operations before tax	**23,329**	**0**	**287**	**0**	**0**	**-176**	**175**	**0**	**23,615**
290	Income taxes on current operations	-5,474							140	-5,334
	Profit (loss) from operations after tax	**17,855**	**0**	**287**	**0**	**0**	**-176**	**175**	**140**	**18,281**
240+270	Profit (loss) from investments and disposal of investments	5,104		-287						4,817
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities						176	-175		1
	Non-recurring profit (loss) before tax	**5,104**	**0**	**-287**	**0**	**0**	**176**	**-175**	**0**	**4,818**
	Income taxes from non-recurring items								-140	-140
	Non-recurring profit (loss) after tax	**5,104**	**0**	**-287**	**0**	**0**	**176**	**-175**	**-140**	**4,678**
320	**Net profit (loss) for the period**	**22,959**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**22,959**
330	Minority interests	-670								-670
340	**Parent Company net profit (loss)**	**22,289**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**22,289**

The net profit attributable to the Parent Company for the period ended 30 June 2017 was about 18.2 million euro (18.5% less than the 22.3 million euro reported for the comparative period, which benefited from non-recurring income of about Euro 4.7 million after tax effect); at the reference date, non-recurring expense amounted to Euro 4.1 million net of taxes and the additional tax charge on the results for the period was Euro 6.3 million, as partly offset by a reduction in the cost of credit to 30.1 million euro (comparative 42.6 million euro).

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

Operating income

Core revenues decreased by about Euro 1.7 million with respect to the comparative period (-0.8%), amounting to Euro 209.4 million. 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 4.7 million (-3.9%) due to monetary policies. A similar trend also charcterises "net gains (losses) on financial assets and liabilities designated at fair value" equal to Euro 6.0 million (compared with Euro 6.5 million) and other operating income/expense which show a reduction of Euro 1.0 million. Net commission income, on the other hand, rise by 5.1 million euro (+6.8%). Lastly, dividends come in at Euro 0.6 million.

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* amounted to around Euro 139.5 million and have decreased, with respect to the comparative period, by Euro 2.2 million (-1.5%).

In particular, other administrative expenses decreased by 2.6 million euro (-5.5%). It should be noted that the balance of Other administrative expense includes Euro 3.5 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") versus Euro 3.8 million in the comparative period.

Payroll costs were in line with the comparative period (+0.5%) and net adjustments to property, plant and equipment and intangible assets totalled about Euro 6.1 million (-1.5%).

Results of operations

The results of operations at 30 June 2017 therefore amounted to Euro 69.9 million, up by Euro 0.5 million compared with the comparative period (0.7%).

Net profit (loss) from operations after tax

The result of operations of Euro 69.9 million leads to a net profit (loss) from operations after tax of Euro 22.7 million, 24.4% up compared with Euro 18.3 million in the comparative period, considering:

- reduction in the cost of credit (*net impairment adjustments to loans and advances* plus *gains (losses) on disposal or repurchase of loans*) to about 30.1 million euro, on 42.6 million euro in the comparative period due to the slowdown in the deterioration of loans, despite maintaining high levels of coverage;
- impairment adjustments to financial assets available for sale of 3.1 million euro (comparative 0.1 million euro);

- *net provisions for risks and charges* of 2.3 million euro, with respect to 3.3 million euro in the comparative period;
- income taxes on current operations of 11.7 million euro (comparative 5.3 million euro).

The balance of the net impairment adjustments to financial assets available for sale is stated net of:
- the impairment of Euro 3.6 million of Fondo Atlante during the period, following the write-off of the bank investments held by it, which further reduces the amount of the share held with respect to adjustments already recognised at the end of last year;
- impairment of Euro 1.8 million of a banking minority investment held as a result of a previously undertaken commitment. This impairment has further reduced the carrying amount of the investment over and above the loss recognised upon the acquisition thereof to reflect the lower initial fair value with respect to the consideration paid (the loss was offset in the income statement for the period by the use of the provision recorded in prior years in relation to the foregoing commitment).

The total impact of both entries on the result for the period has been reclassified to *Non-recurring profit (loss) after tax.*

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 30 June 2017 there was a *non-recurring loss after tax* of 4.1 million euro. This mainly consists of impairment adjustments (net of the use of provisions) recognised:
- of Euro 1.8 million with respect to a non-controlling interest in a bank acquired in the period under a previous commitment assumed,
- of Euro 3.6 million with respect to Fondo Atlante following the complete write-off of the carrying amount of equity investments in banks held by the fund,

net of the related tax effect (negative amount of Euro 1.3 million).

The non-recurring profit in the comparative period of Euro 4.7 million is essentially attributable to *Profit from investments and disposal of investments* of a Euro 4.8 million, which includes:
- a net gain of Euro 4.1 million on derecognition by the Parent Company of the investment in CPC in liquidation, with the simultaneous recognition of the amount due from the liquidators for the residual equity of that company, as well as the reversal of the provision for future costs recorded in the prior year of Euro 1.1 million and
- a net negative impact of approximately Euro 0.4 million related to the disposal of the Parent Company's investment in Istifid Spa,

net of the negative tax effect of Euro 0.1 million.

Parent Company net profit

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 30 June 2017 of Euro 18.2 million.

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 notes on their performance.

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

Balance sheet

Amounts in thousands of Euro	30.06.2017	31.12.2016	Change amount	%
Total assets	9,884,039	8,925,882	958,157	10.7%
Financial assets	2,424,134	1,492,482	931,652	62.4%
Due from banks	553,316	500,276	53,040	10.6%
Loans to customers	6,203,538	6,247,053	-43,515	-0.7%
Property, plant and equipment	135,139	135,219	-80	-0.1%
Intangible assets	2,749	3,238	-489	-15.1%
Due to banks	1,784,059	1,011,518	772,541	76.4%
Due to customers	5,687,612	5,622,898	64,714	1.2%
Debt securities in issue and Financial liabilities designated at fair v alue through profit and loss	1,072,147	1,226,467	-154,320	-12.6%
Shareholders' equity (including Net profit/loss for the period)	872,469	865,567	6,902	0.8%
Own Funds	1,032,837	1,037,658	-4,821	-0.5%
Total indirect deposits	11,985,186	11,661,761	323,425	2.8%
of which: Indirect deposits from ordinary customers	*6,928,415*	*6,648,082*	*280,333*	*4.2%*
of which: Indirect deposits from institutional customers	*5,056,771*	*5,013,679*	*43,092*	*0.9%*

Income statement [1]

Amounts in thousands of Euro	30.06.2017	30.06.2016	Change amount	%
Operating income	132,565	129,615	2,950	2.3%
of which: Net interest income	*65,413*	*68,604*	*-3,191*	*-4.7%*
Operating costs	86,894	88,279	-1,385	-1.6%
Result of operations	45,671	41,336	4,335	10.5%
Net profit (loss) from operations after tax	23,664	18,449	5,215	28.3%
Non-recurring profit (loss) after tax	-4,115	5,036	-9,151	n.s.
Net profit for the period	19,549	23,485	-3,936	-16.8%

[1] *from the Reclassified income statement.*

Key figures and ratios

	30.06.2017	31.12.2016	Change %
Capital/Total assets	8.8%	9.7%	-0.9%
Capital/Loans to customers	14.1%	13.9%	0.2%
Capital/Due to customers	15.3%	15.4%	-0.1%
Capital/Debt securities in issue and Financial liabilities designated at fair v alue through profit and loss	81.4%	70.6%	10.8%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	16.5%	16.3%	0.2%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	16.6%	16.4%	0.2%
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.7%	19.9%	-0.2%
Financial assets/Total assets	24.5%	16.7%	7.8%
Due from banks/Total assets	5.6%	5.6%	0.0%
Loans to customers/Total assets	62.8%	70.0%	-7.2%
Loans to customers/Direct customer deposits	91.8%	91.2%	0.6%
Due to banks/Total assets	18.0%	11.3%	6.7%
Due to customers/Total assets	57.5%	63.0%	-5.5%
Debt securities in issue and financial liabilities designated at fair v alue through profit and loss/Total assets	10.8%	13.7%	-2.9%
Direct customer deposits/Total assets	68.4%	76.7%	-8.3%

	30.06.2017	30.06.2016	Change %
Cost/Income ratio	65.5%	68.1%	-2.6%
Net interest income/Operating income	49.3%	52.9%	-3.6%
Result of operations/Operating income	34.5%	31.9%	2.6%
Profit (loss) from operations after tax/Capital (2)- annualised (3)	5.0%	4.0%	1.0%
ROE (2) - annualised (3) (4)	4.5%	3.8%	0.7%
Profit (loss) from operations before tax/Total assets (ROA) - annualised (3)	0.6%	0.5%	0.1%

	30.06.2017	31.12.2016	Change %
Net doubtful loans/Loans to customers	3.9%	4.1%	-0.2%
Net impaired loans/Loans to customers	7.0%	7.2%	-0.2%
% Cov erage of doubtful loans	56.6%	55.0%	1.6%
% Cov erage of doubtful loans, gross of cancellations	64.5%	63.3%	1.2%
% Total cov erage of impaired loans	47.7%	46.3%	1.4%
% Cov erage of impaired loans, gross of cancellations	54.5%	53.4%	1.1%
% Cov erage of performing loans	0.44%	0.48%	-0.04%

Structure and productivity ratios

	30.06.2017	31.12.2016	Change amount	%
Number of employees [5]	1,407	1,410	-3	-0.2%
Number of branches	146	149	-3	-2.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [6]	4,404	4,429	-25	-0.6%
Direct deposits from customers per employee[6]	4,799	4,856	-57	-1.2%
	30.06.2017	**30.06.2016**	**Change amount**	**%**
Operating income per employee [6] - annualised [3]	188	185	3	1.6%
Result of operations per employee [6]- annualised [3]	65	62	3	4.8%

[2] net of the profit (loss) for the period;
[3] the amount reported at 30.06.2016 is the final figure at the end of 2016;
(4) the annualised ROE at 30.06.2017 does not take into consideration the annualisation of the Net non-recurring operating profit;
(5) punctual number of employees at the date
[6] based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

Profit for the period ended 30 June 2017 of Euro 19.5 million was 16.8% lower than the amount of Euro 23.5 million reported for the comparative period that benefited from *non-recurring profit after tax* of approximately Euro 5.0 million relating to gains on disposal of certain equity investments, compared to a *non-recurring loss after tax* of Euro 4.1 million due to impairment recognised in the period just ended in relation to certain investments classified as financial assets available for sale. This also comprises *net impairment adjustments to financial assets available for sale* of Euro 3.1 million and a higher tax charge on the result for the period of Euro 3.1 million, partly offset by a reduction in the cost of lending to Euro 16.3 million (versus Euro 20.9 million) and by an increase in *result of operations* of Euro 4.3 million. The latter amount was positively impacted by *net commission income* of Euro 54.2 million (+10.8%) and by *net gains on financial assets and liabilities* of Euro 8.9 million (versus Euro 6.6 million), partly offset by the erosion of *net interest income* by approximately Euro 3.2 million due to the situation in the money markets.

Loans to customers increased from Euro 6,035.4 million at the end of 2016 to Euro 6,195.4 million at the reference date, an incidence of 7.0% of the deteriorated portfolio (formerly 7.2%).

Shareholders' equity increased from Euro 865.6 million at 31 December 2016 to Euro 872.5 million at the reference date, and capital for supervisory purposes (*Total capital ratio*) decreased from Euro 1,037.7 million at the end of 2016 to Euro 1,032.8 million, due to the reduction in class 2 capital since 31 December 2016 by 18.1 million euro, because of the reduction of subordinated loans.

The *Total capital ratio*, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 19.7% (19.9% at 31 December 2016).

Banca Popolare di Spoleto S.p.A.

Balance sheet

Amounts in thousands of Euro	30.06.2017	31.12.2016	Change amount	%
Total assets	4,154,069	4,105,712	48,357	1.2%
Financial assets	357,002	379,865	-22,863	-6.0%
Due from banks	65,854	87,183	-21,329	-24.5%
Loans to customers	3,500,905	3,409,868	91,037	2.7%
Property, plant and equipment	41,755	42,714	-959	-2.2%
Intangible assets	8,225	8,392	-167	-2.0%
Due to banks	366,884	424,407	-57,523	-13.6%
Due to customers	3,232,543	3,106,267	126,276	4.1%
Debt securities in issue	102,306	186,073	-83,767	-45.0%
Shareholders' equity (including Net profit/loss for the period)	260,527	256,856	3,671	1.4%
Own Funds	271,150	249,920	21,231	8.5%
Total indirect deposits	1,957,092	1,878,890	78,202	4.2%
of which: Indirect deposits from ordinary customers	*1,909,787*	*1,833,742*	*76,045*	*4.1%*
of which: Indirect deposits from institutional customers	*47,305*	*45,148*	*2,157*	*4.8%*

Income statement [1]

Amounts in thousands of Euro	30.06.2017	30.06.2016	Change amount	%
Operating income	75,572	79,236	-3,664	-4.6%
of which: Net interest income	*45,063*	*48,564*	*-3,501*	*-7.2%*
Operating costs	50,328	51,350	-1,022	-2.0%
Result of operations	25,244	27,886	-2,642	-9.5%
Net profit (loss) from operations after tax	7,625	7,441	184	2.5%
Non-recurring profit (loss) after tax	12	25	-13	-52.0%
Net profit for the period	7,637	7,466	171	2.3%

[1] *from the Reclassified income statement.*

Key figures and ratios

	30.06.2017	31.12.2016	Change %
Capital/Total assets	6.3%	6.3%	0.0%
Capital/Loans to customers	7.4%	7.5%	-0.1%
Capital/Due to customers	8.1%	8.3%	-0.2%
Capital/Debt securities in issue	254.7%	138.0%	116.7%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	9.5%	9.2%	0.3%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	9.5%	9.2%	0.3%
Total Own Funds/Risk-weighted assets (Total capital ratio)	10.3%	9.4%	0.9%
Financial assets/Total assets	8.6%	9.3%	-0.7%
Due from banks/Total assets	1.6%	2.1%	-0.5%
Loans to customers/Total assets	84.3%	83.1%	1.2%
Loans to customers/Direct customer deposits	105.0%	103.6%	1.4%
Due to banks/Total assets	8.8%	10.3%	-1.5%
Due to customers/Total assets	77.8%	75.7%	2.1%
Debt securities in issue /Total assets	2.5%	4.5%	-2.0%
Direct customer deposits/Total assets	80.3%	80.2%	0.1%

	30.06.2017	30.06.2016	Change %
Cost/Income ratio	66.6%	64.8%	1.8%
Net interest income/Operating income	59.6%	61.3%	-1.7%
Result of operations/Operating income	33.4%	35.2%	-1.8%
Profit (loss) from operations after tax/Capital [2]- annualised [3]	6.0%	4.8%	1.2%
ROE [2] - annualised [3] [4]	6.0%	2.9%	3.1%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [3]	0.5%	0.3%	0.2%

	30.06.2017	31.12.2016	Change %
Net doubtful loans/Loans to customers	6.5%	6.7%	-0.2%
Net impaired loans/Loans to customers	12.6%	13.4%	-0.8%
% Total cov erage of impaired loans	57.7%	57.7%	0.0%
% Cov erage of impaired loans, gross of cancellations	46.6%	46.3%	0.3%
% Cov erage of performing loans	0.59%	0.66%	-0.07%

Structure and productivity ratios

	30.06.2017	31.12.2016	Change amount	Change %
Number of employees [5]	899	904	-5	-0.6%
Number of branches	122	122	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [6]	3,883	3,749	134	3.6%
Direct deposits from customers per employee[6]	3,699	3,620	79	2.2%

	30.06.2017	30.06.2016	Change amount	Change %
Operating income per employee [6] - annualised [3]	168	174	-6	-3.4%
Result of operations per employee [6]- annualised [3]	56	64	-8	-12.5%

[2] *net of the profit (loss) for the period;*
[3] *the amount reported at 30.06.2016 is the final figure at the end of 2016;*
[4] *the annualised ROE at 30.06.2017 does not take into consideration the annualisation of the Net non-recurring operating profit;*
[5] *punctual number of employees at the date*
[6] *based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.*

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 81.67% in this company.

The first half of 2017 closed with *profit for the period* of approximately Euro 7.6 million, compared to a profit of Euro 7.5 million for the corresponding comparative period. In particular, the results were impacted by a decrease in the contribution from *net interest income* of Euro 3.5 million due to the situation in the money markets and from *net gains on financial assets and liabilities* of Euro 0.5 million, by an increase in *net provisions for risks and charges* of Euro 0.5 million and by an increase in the tax charge of Euro 3.0 million, offset by a decrease in *cost of credit* of Euro 6.5 million as well as of *operating costs* of Euro 1 million and by an increase in *net commission income* of Euro 0.7 million.

Loans to customers increased from 3,409.9 million euro at the end of 2016 to 3,500.9 million euro at the reference date, an incidence of the deteriorated portfolio of 12.6% (formerly 13.4%).

Book Shareholders' equity has increased from 256.9 million euro at 31 December 2016 to 260,5 million at the reporting date, while Own funds (Total capital ratio) have gone from 249.9 million euro at the end of 2016 to 271.2 million euro because of the granting by the Parent Company of a subordinated loan of Euro 18 million with fixed maturity (10 years), aimed at strengthening the "Tier 2 capital".

The *Total capital ratio*, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 10.3% (9.4% at 31 December 2016).

Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	30.06.2017	31.12.2016	Change amount	Change %
Total assets	608,910	566,871	42,039	7.4%
Financial assets	15	15	0	0.0%
Due from banks	2,472	3,238	-766	-23.7%
Loans to customers	604,773	562,021	42,752	7.6%
Property, plant and equipment	80	84	-4	-4.6%
Intangible assets	649	687	-39	-5.6%
Due to banks	552,594	521,674	30,920	5.9%
of which: due to banks of group	*551,872*	*521,529*	*30,343*	*5.8%*
Due to customers	4,251	3,047	1,204	39.5%
Shareholders' equity (including Net profit/loss for the period)	46,472	37,811	8,660	22.9%
Own Funds	42,995	32,251	10,744	33.3%

Income statement [1]

Amounts in thousands of Euro	30.06.2017	30.06.2016	Change amount	Change %
Operating income	8,526	7,329	1,197	16.3%
of which: Net interest income	*6,568*	*5,591*	*978*	*17.5%*
Operating costs	3,029	2,635	393	14.9%
Result of operations	5,497	4,693	804	17.1%
Net profit (loss) from operations after tax	3,524	3,028	496	16.4%
Non-recurring profit (loss) after tax	0	0	0	n.s.
Net profit for the period	3,524	3,028	496	16.4%

[1] *from the Reclassified income statement.*

Key figures and ratios

	30.06.2017	31.12.2016	Change %
Capital/Total assets	7.6%	6.7%	0.9%
Capital/Loans to customers	7.7%	6.7%	1.0%
Capital/Due to banks	8.4%	7.2%	1.2%
Total Own Funds/Risk-weighted assets (Total capital ratio)	8.5%	6.8%	n.s.
Loans to customers/Total assets	99.3%	99.1%	0.2%
Due to banks/Total assets	90.8%	92.0%	-1.2%

	30.06.2017	30.06.2016	Change %
Cost/Income ratio	35.5%	36.0%	-0.5%
Net interest income/Operating income	77.0%	76.3%	0.7%
Result of operations/Operating income	64.5%	64.0%	0.5%
Profit (loss) from operations after tax/Capital (2)- annualised (3)	16.4%	19.7%	-3.3%
ROE (2) - annualised (3) (4)	16.4%	19.2%	-2.8%
Profit (loss) from operations before tax/Total assets (ROA) - annualised (3)	2.1%	1.1%	1.0%

	30.06.2017	31.12.2016	Change %
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net impaired loans/Loans to customers	0.5%	0.5%	0.0%
% Coverage of doubtful loans	69.6%	65.6%	4.0%
% Total coverage of impaired loans	35.7%	35.4%	0.3%
% Coverage of performing loans	0.07%	0.07%	0.0%

Structure and productivity ratios

	30.06.2017	31.12.2016	Change amount	Change %
Number of employees (5)	43	42	1	2.4%
Number of branches			0	0.0%

Amounts in thousands of Euro	30.06.2017	31.12.2016	Change amount	Change %
Loans and advances to customers per employee (6)	14,230	13,708	522	3.8%
Amounts in thousands of Euro	**30.06.2017**	**30.06.2016**	**Change amount**	**%**
Operating income per employee (6) - annualised (3)	401	363	38	10.5%
Result of operations per employee (6)- annualised (3)	259	231	28	12.1%

(2) net of the profit (loss) for the period;

(3) the amount reported at 30.06.2016 is the final figure at the end of 2016;

(4) the annualised ROE at 30.06.2017 does not take into consideration the annualisation of the Net non-recurring operating profit;

(5) punctual number of employees at the date

(6) based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

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

Profit at 30 June 2017 amounted to 3.5 million euro, in increase with the comparative period (+16.4%); operating income amounted to 8.5 million euro, up by 1.2 million euro compared with the period to 30 June 2016, while operating costs totalled 3.0 million euro (comparative 2.6 million euro), and the results of operations amounted to 5.5 million euro (comparative 4.7 million euro). Net impairment adjustments to loans and advances of 0.2 million euro (write-back of 0.2 million in the comparative period), net provisions for risks

and charges of 0.3 million euro (comparative 0.2 million euro), and taxation of 1.5 million euro (comparative 1.3 million) contributed to the results for the period.
Loans to customers rose from 562.0 million euro at the end of 2016 to 604.8 million euro at the reference date.
Shareholders' equity increased from 37.8 million euro at 31 December 2016 to 46.5 million at the reference date (reflecting the capital increase of 10 million euro and the results for the period, as partially offset by the payment of dividends). Own Funds for supervisory purposes have risen from 32.3 million euro at the end of 2016 to 43.0 million euro.

Other information

Ratings

On 20 June 2017, following its annual review, Fitch Ratings confirmed all the ratings awarded to the Parent Company, Banco di Desio e della Brianza.

The updated ratings are the following:

- Long term IDR: confirmed at "BBB-" Outlook Stable
- Viability rating: confirmed at "bbb-"
- Short term IDR: confirmed at "F3"
- Support Rating: confirmed at "5"
- Support Rating Floor: confirmed at "No Floor"

Existence of the conditions of arts. 36 and 37 of Consob's market regulations

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

Transactions with related parties

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

Outlook for the rest of the year and principal risks and uncertainties

Based on the final results for the first half of 2017, we expect for the current year to achieve gross ordinary operating results well in line with those of the previous year, if the macroeconomic scenario does not have unexpected critical events.

As regards the principal risks and uncertainties, note that this Consolidated interim financial report at 30 June 2017 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

Interim condensed consolidated financial statements at 30 June 2017

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	30.06.2017	31.12.2016	Change Amount	Change %
10. Cash and cash equivalents	41,567	50,472	(8,905)	-17.6%
20. Financial assets available for trading	37,533	20,053	17,480	87.2%
40. Financial assets available for sale	1,981,985	1,848,164	133,821	7.2%
50. Financial assets held to maturity	759,571	0	759,571	
60. Due from banks	211,303	112,838	98,465	87.3%
70. Loans to customers	9,777,396	9,720,108	57,288	0.6%
80. Hedging derivatives	140	2,591	(2,451)	-94.6%
90. Adjustment to financial assets with generic hedge (+/-)	925	1,543	(618)	-40.1%
120. Property, plant and equipment	180,131	181,201	(1,070)	-0.6%
130. Intangible assets	17,150	17,843	(693)	-3.9%
of which:				
- goodwill	*15,322*	*15,322*		*0.0%*
140. Tax assets	224,752	233,410	(8,658)	-3.7%
a) current	*35,406*	*36,408*	*(1,002)*	*-2.8%*
b) deferred	*189,346*	*197,002*	*(7,656)*	*-3.9%*
of which Law 214/2011	*157,932*	*164,834*	*(6,902)*	*-4.2%*
160. Other assets	209,029	177,680	31,349	17.6%
Total assets	**13,441,482**	**12,365,903**	**1,075,579**	**8.7%**

LIABILITIES

Liabilities and shareholders' equity	30.06.2017	31.12.2016	Change	
			Amount	%
10. Due to banks	1,743,487	962,245	781,242	81.2%
20. Due to customers	8,922,376	8,729,591	192,785	2.2%
30. Debt securities in issue	1,172,078	1,393,884	(221,806)	-15.9%
40. Financial liabilities held for trading	6,601	6,230	371	6.0%
50. Financial liabilities designated at fair v alue through profit and loss	0	15,908	(15,908)	-100.0%
60. Hedging deriv ativ es	5,001	6,637	(1,636)	-24.6%
80. Tax liabilities	28,119	27,367	752	2.7%
a) current	*2,064*	*718*	*1,346*	*187.5%*
b) deferred	*26,055*	*26,649*	*(594)*	*-2.2%*
100. Other liabilities	558,398	220,054	338,344	153.8%
110. Prov ision for termination indemnities	29,327	30,204	(877)	-2.9%
120. Prov isions for risks and charges	51,126	55,282	(4,156)	-7.5%
b) other provisions	*51,126*	*55,282*	*(4,156)*	*-7.5%*
140. Valuation reserv es	11,063	11,755	(692)	-5.9%
170. Reserv es	761,201	746,964	14,237	1.9%
180. Share premium reserv e	16,145	16,145		0.0%
190. Share capital	67,705	67,705		0.0%
210. Minority interests (+/-)	50,698	50,381	317	0.6%
220. Net profit (loss) for the period (+/-)	18,157	25,551	(7,394)	-28.9%
Total liabilities and shareholders' equity	**13,441,482**	**12,365,903**	**1,075,579**	**8.7%**

CONSOLIDATED INCOME STATEMENT

	30.06.2017	30.06.2016	Change	
			Amount	%
10. Interest and similar income	140,896	158,453	(17,557)	-11.1%
20. Interest and similar expense	(25,820)	(38,647)	12,827	-33.2%
30.Net interest income	**115,076**	**119,806**	(4,730)	-3.9%
40. Commission income	86,344	84,999	1,345	1.6%
50. Commission expense	(6,324)	(10,104)	3,780	-37.4%
60.Net commission income	**80,020**	**74,895**	5,125	6.8%
70.Dividends and similar income	610	974	(364)	-37.4%
80.Net trading income	2,360	622	1,738	279.4%
90.Net hedging gains (losses)	(250)	(758)	508	-67.0%
100.Gains (losses) on disposal or repurchase of:	2,312	7,754	(5,442)	-70.2%
a) loans	*95*	*1,105*	(1,010)	-91.4%
b) financial assets available for sale	*2,591*	*7,561*	(4,970)	-65.7%
d) financial liabilities	*(374)*	*(912)*	538	-59.0%
110. Net results on financial assets and liabilities designated at fair value	(8)	(48)	40	-83.3%
120.Net interest and other banking income	**200,120**	**203,245**	(3,125)	-1.5%
130.Net impairment adjustments to:	(36,630)	(42,426)	5,796	-13.7%
a) loans	*(29,838)*	*(43,447)*	13,609	-31.3%
b) financial assets available for sale	*(9,008)*	*(142)*	(8,866)	n.s.
d) other financial assets	*2,216*	*1,163*	1,053	90.5%
140. Net profit from financial activities	**163,490**	**160,819**	2,671	1.7%
170. Net income from financial and insurance activities	**163,490**	**160,819**	2,671	1.7%
180. Administrative costs	(150,667)	(154,728)	4,061	-2.6%
a) payroll costs	*(89,406)*	*(89,069)*	(337)	0.4%
b) other administrative costs	*(61,261)*	*(65,659)*	4,398	-6.7%
190. Net provisions for risks and charges	(2,690)	(2,744)	54	-2.0%
200. Net adjustments to property, plant and equipment	(3,946)	(4,158)	212	-5.1%
210. Net adjustments to intangible assets	(1,000)	(923)	(77)	8.3%
220. Other operating charges/income	23,796	25,063	(1,267)	-5.1%
230. Operating costs	**(134,507)**	**(137,490)**	2,983	-2.2%
240. Profit (loss) from equity investments		5,104	(5,104)	-100.0%
270. Profit (loss) from investement expenses	41		41	n.s.
280. Profit (loss) from current operations before tax	**29,024**	**28,433**	591	2.1%
290. Income taxes on current operations	(10,393)	(5,474)	(4,919)	89.9%
300. Profit (loss) from current operations after tax	**18,631**	**22,959**	(4,328)	-18.9%
320. Net profit (loss) for the period	**18,631**	**22,959**	(4,328)	-18.9%
330. Net profit (loss) pertaining to minority interests	(474)	(670)	196	-29.3%
340. Parent Company net profit (loss)	**18,157**	**22,289**	(4,132)	-18.5%

	30.06.2017	30.06.2016
Basic earnings per share (Euro)	0.14	0.17
Diluted earnings per share (Euro)	0.14	0.17

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.06.2017	30.06.2016
10.	**Net profit (loss) for the period**	**18,631**	**22,959**
	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	350	(1,078)
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	-	-
90.	Cash-flow hedges	814	(2,893)
100.	Financial assets available for sale	(1,716)	(158)
110.	Non-current assets and disposal groups held for sale	-	-
120.	Portion of the valuation reserves of the equity investments carried at equity	-	(4)
130.	**Total other elements of income (net of income taxes)**	**(552)**	**(4,133)**
140.	**Total comprehensive income (Captions 10+130)**	**18,079**	**18,826**
150.	Total comprehensive income pertaining to minority interest	(614)	(500)
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**17,465**	**18,326**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2017	Minority interests at 30.06.2017
							Operazioni sul patrimonio netto									
				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 30.06.2017		
Share capital:																
a) ordinary shares	118,482		118,482										110		60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserv e	31,570		31,570										24		16,145	15,449
Reserv es:																
a) from profits	707,638		707,638	14,298		(476)							(30)		747,405	(25,975)
b) other	17,612		17,612												13,796	3,816
Valuation reserv es:	10,848		10,848											(552)	11,063	(767)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	25,537		25,537	(14,298)	(11,239)									18,631	18,157	474
Group shareholders' equity	**868,120**		**868,120**		**(11,239)**	**(80)**							**5**	**17,465**	**874,271**	
Minority interests	**50,381**		**50,381**			**(396)**							**99**	**614**		**50,698**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2016

	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 30.06.2016	Minority interests aT 30.06.2016
						Changes in reserves	Operazioni sul patrimonio netto							Comprehensive income at 30.06.2016		
				Reserves	Dividends and other allocations		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			
Share capital:																
a) ordinary shares	118,578		118,578			3									60,840	57,741
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		(632)									734,385	(25,523)
b) other	22,611		22,611			(4,999)									13,796	3,816
Valuation reserv es:	21,400		21,400											(4,133)	17,804	(537)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	37,598		37,598	(26,009)	(11,589)									22,959	22,289	670
Group shareholders' equity	**870,449**		**870,449**		**(11,589)**	**(5,062)**								**18,326**	**872,124**	
Minority interests	**51,606**		**51,606**			**(565)**								**500**		**51,541**

CONSOLIDATED CASH FLOW STATEMENT

	30.06.2017	30.06.2016
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**80,835**	**109,013**
- interest receiv ed (+)	139,428	156,645
- interest paid (-)	(27,079)	(38,087)
- div idends and similar income (+)	610	974
- net commission income (+/-)	81,135	75,354
- payroll costs (-)	(84,194)	(86,736)
- net premiums receiv ed (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(51,025)	(54,289)
- other rev enues (+)	32,353	60,787
- taxation (-)	(10,393)	(5,635)
- costs/rev enues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(384,363)**	**(338,978)**
-financial assets held for trading	(18,103)	(232)
- financial assets designated at fair v alue through profit and loss		
- financial assets av ailable for sale	(147,949)	(239,991)
- loans to customers	(103,818)	(87,516)
- due from banks: on demand	(9,482)	88,326
- due from banks: other receiv ables	(88,955)	(25,628)
- other assets	(16,056)	(73,937)
3. Cash generated (absorbed) by financial liabilities	**1,067,839**	**225,906**
- due to banks: on demand	(3,994)	7,381
-due to banks: other debts	785,236	233,471
- due to customers	192,785	207,257
- debt securities in issue	(220,404)	(362,498)
- financial liabilities held for trading	335	574
- financial liabilities designated at fair v alue through profit and loss	(15,908)	(3,788)
- other liabilities	329,789	143,509
Net cash generated (absorbed) by operating activities (A)	**764,311**	**(4,059)**
B. INVESTING ACTIVITIES		
1. Cash generated by	**198**	**3**
- sale of equity inv estments		
- div idends collected on equity inv estments		
- sale of financial assets held to maturity		
- sale of property, plant and equipment	198	3
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(763,094)**	**(1,878)**
- purchase of equity inv estments		
- purchase of financial assets held to maturity	(759,713)	
- purchase of property, plant and equipment	(3,074)	(1,703)
- purchase of intangible assets	(307)	(175)
- purchase of lines of business		
Net cash generated (absorbed) by investing activities (B)	**(762,896)**	**(1,875)**
C.FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- div idends distributed and other allocations	(11,635)	(11,589)
Net cash generated (absorbed) by financing activities (C)	**(11,635)**	**(11,589)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(10,220)**	**(17,523)**

RECONCILIATION

	30.06.2017	30.06.2016
Cash and cash equivalents at beginning of period	**50,472**	**62,306**
Net increase (decrease) in cash and cash equiv alents	(10,220)	(17,523)
Cash and cash equiv alents: effect of change in exchange rates	1,315	1,561
Cash and cash equivalents at end of period	**41,567**	**46,344**

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

	Captions	2nd quarter 2017	1st quarter 2017	2nd quarter 2016	1st quarter 2016
10	Interest and similar income	70,280	70,616	77,680	80,773
20	Interest and similar expense	(12,571)	(13,249)	(18,118)	(20,529)
30	**Net interest income**	**57,709**	**57,367**	**59,562**	**60,244**
40	Commission income	44,081	42,263	43,416	41,583
50	Commission expense	(2,745)	(3,579)	(5,201)	(4,903)
60	**Net commission income**	**41,336**	**38,684**	**38,215**	**36,680**
70	Dividends and similar income	150	460	974	-
80	Net trading income	789	1,571	200	422
90	Net hedging gains (losses)	(41)	(209)	(141)	(617)
100	Gains (losses) on disposal or repurchase of:	1,542	770	2,535	5,219
	a) loans	*95*	-	*(6)*	*1,111*
	b) financial assets available for sale	*1,625*	*966*	*2,896*	*4,665*
	c) financial assets held to maturity	-	-	-	-
	d) financial liabilities	*(178)*	*(196)*	*(355)*	*(557)*
110	Net results on financial assets and liabilities designated at fair value	-	(8)	58	(106)
120	**Net interest and other banking income**	**101,485**	**98,635**	**101,403**	**101,842**
130	Net impairment adjustments to:	(20,854)	(15,776)	(21,697)	(20,729)
	a) loans	*(15,200)*	*(14,638)*	*(22,934)*	*(20,513)*
	b) financial assets available for sale	*(5,712)*	*(3,296)*	*(20)*	*(122)*
	d) other financial assets	*58*	*2,158*	*1,257*	*(94)*
140	**Net profit from financial activities**	**80,631**	**82,859**	**79,706**	**81,113**
170	**Net profit from financial and insurance activities**	**80,631**	**82,859**	**79,706**	**81,113**
180	Administrative costs:	(74,535)	(76,132)	(76,517)	(78,211)
	a) payroll costs	*(44,989)*	*(44,417)*	*(44,585)*	*(44,484)*
	b) other administrative costs	*(29,546)*	*(31,715)*	*(31,932)*	*(33,727)*
190	Net provisions for risks and charges	(1,785)	(905)	(1,226)	(1,518)
200	Net adjustments to property, plant and equipment	(1,969)	(1,977)	(2,100)	(2,058)
210	Net adjustments to intangible assets	(501)	(499)	(458)	(465)
220	Other operating charges/income	12,587	11,209	12,324	12,739
230	**Operating costs**	**(66,203)**	**(68,304)**	**(67,977)**	**(69,513)**
240	Profit (loss) from equity investments	-	-	(117)	5,221
270	Profits (losses) from disposal of investments	41	-	-	-
280	**Profit (loss) from current operations before tax**	**14,469**	**14,555**	**11,612**	**16,821**
290	Income taxes on current operations	(4,782)	(5,611)	(1,780)	(3,694)
300	**Profit (loss) from current operations after tax**	**9,687**	**8,944**	**9,832**	**13,127**
310	Profit (loss) after tax on non-current assets held for sale	-	-	-	-
320	**Net profit (loss) for the period**	**9,687**	**8,944**	**9,832**	**13,127**
330	Net profit (loss) pertaining to minority interests	(174)	(300)	(241)	(429)
340	**Parent Company net profit (loss)**	**9,513**	**8,644**	**9,591**	**12,698**

EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

ACCOUNTING POLICIES

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

These Interim condensed consolidated financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and for the purposes of determining own funds, in accordance with the applicable IAS/IFRS issued by the International Accounting Standards Board (IASB) and related interpretations issued by the IFRS Interpretations Committee (IFRIC) applicable as of 30 June 2017. In particular, the content of the condensed interim financial statements complies with IAS 34 – Interim financial statements, as well as with the enabling regulations for art. 9 of Legislative Decree 38/2005 and the Bank of Italy Circular 262 of 22 December 2005 as updated on 15 December 2015.

Basis of preparation

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

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

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

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

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

In particular, the financial statements used for the preparation of the interim condensed consolidated financial statements are those which have been prepared by the subsidiaries for the period ended 30 June 2017, adjusted, where necessary, to comply with the relevant IAS/IFRS adopted by the Parent Company.

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

Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.673
Fides S.p.A.	Rome	1	Banco Desio	100.000
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.000

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

Compared with the situation at 31 December 2016, there has been a change in the scope of consolidation following the inclusion of the SPV "Desio OBG S.r.l.", which had been set up ad hoc in connection with the structuring and implementation of the covered bonds issue programme approved by the Board of Directors of the Parent Company, pursuant to art. 7-bis of Law 130/99; on 29 June 2017, the Parent Company acquired a 60% equity interest in the above SPV, which was thus included in Banco Desio Group as of the same date.
As regards the equity interest in BPS, note that this decreased in the half-year due to the conversion into ordinary shares of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" presented for exercise by the final date of 30 June 2017 (the end of the exercise period set by the warrant regulations). Consequently, the unexercised warrants have been stripped of all rights and have become invalid for all intents and purposes.

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.	18.327	396
Desio OBG S.r.l.	40.000	-

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.	4,154,069	21,029	375,002	49,980	7,326	260,527	45,063	72,915	(49,379)	11,224	7,637	-	7,637	(1,900)	5,737
Desio OBG S.r.l.	9	-	-	2	-	9	-	-	(1)	(1)	(1)	-	(1)	-	(1)

4 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.

5 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 consolidated using the equity method (this policy was not applicable at the interim consolidated financial statements date, since the Parent Company does not hold any investments in associates).

Other aspects

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 - Financial Instruments issued by IASB 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:

a) The business model adopted for the management of financial assets;

b) The characteristics of their contractual cash flows.

Depending on these criteria, the standard provides for the following three categories:

I. Amortised Cost (AC);

II. Fair Value with allocation of changes in the other components of the Statement of Comprehensive

Income (FVOCI);

III. Fair Value through profit or loss (FVTPL).

With reference to the impairment model, the new standard requires that the estimate of loan losses is based on the model of "expected losses" (as opposed to "incurred losses") using information that has support and available without unreasonable charges or efforts that include historical, current and future data. The standard establishes, in particular, that:

- This impairment model applies to all financial instruments, namely financial assets measured at amortised cost, those measured at fair value with changes recognised under other components in the statement of comprehensive income, receivables from leases and trade receivables;
- To apply the model, financial instruments have to be classified in three categories (known as stages or buckets), each of which has specific procedures for defining and measuring write-downs.

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies. Among other actions, the standard expands the scope of risks for which hedge accounting of non-financial items can be applied, removes the compulsory quantitative effectiveness tests and no longer requires retrospective evaluation of the effectiveness of the hedge.

With reference to the first application of the new accounting standards, the Banco Desio Group is currently carrying out an analysis of the impact of the standard and of its implementation within 1 January 2018. A Steering Committee has been established, involving General Management, the Administration Department, the Risk Management Department and the Organisation and Systems Department, in order to establish the guidelines, to direct the activities of the work group, to validate results and to take decisions relevant for the project. 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.

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.

As part of the assessment and design phases, it is planned to perform simulations involving (i) models used to determine adjustments made on a collective basis, (ii) the measurement/reclassification of financial instruments, (iii) the impact on the carrying amount of equity, on own funds and on capital ratios.

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.

The activities performed to date have confirmed the significance of the changes introduced by the new standard, particularly in relation to the impairment model applicable to all financial assets (except for those measured at fair value through profit or loss or FVTPL), with the likelihood of an increase in impairment adjustments to loans and advances compared to those estimated with the model currently used. Conversely, it is not expected that any significant balance sheet reclassifications will arise from the new rules concerning the classification of financial assets.

With particular reference to the new models used to estimate collective impairment adjustments, it is expected that movements between the different stages in which financial assets are grouped (in particular, between Stage 1, which will mainly include new positions disbursed and all fully performing positions and Stage 2, which will include financial instrument positions that have suffered impairment subsequent to the date of initial recognition), could give rise to greater volatility of the results between different reporting periods.

IFRS 15 – Revenue from contracts with customers

IFRS 15 "Revenue from contracts with customers" as adopted by Commission Regulation (EU) 2016/1905 of 22 September 2016, which was published in the Official Gazette L 295 of 29 October 2016, shall be applicable as of 1 January 2018.

The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The fundamental steps for revenue recognition according to the new model are as follows:

- identification of the contract with the customer: IFRS 15 applies to all contracts entered into with a customer that meet specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate a number of contracts and to account for them as one sole contract;
- identification of the performance obligations in the contract: a contract constitutes a promise to transfer goods or services to a customer. If the goods or services are distinct, the promise qualifies as a performance obligation and is accounted for separately;
- determination of the price: the transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. The transaction price may be a fixed amount, but at times it may include variable or non-cash components;
- allocation of the transaction price to the performance obligations in the contracts: an entity should allocate the transaction price to the various performance obligations in the contract by reference to the standalone selling prices of the distinct goods or services envisaged by the contract. If a standalone selling price is not directly observable, the entity will need to estimate it. The standard establishes when an entity should allocate a discount or a variable component to one or more performance obligations (or to distinct goods or services) covered by the contract;
- revenue recognition criteria when the entity satisfies a performance obligation: an entity recognises revenue when it satisfies its performance obligation by means of the transfer of goods or the rendering of a service, as envisaged by the contract, to a customer (i.e. when the customer obtains of the goods or service). The amount of revenue to be recognised is that allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied either at a point in time (typically, in the case of a transfer of goods) or over time (typically, in the case of the provision of services). In the case of performance obligations that are satisfied over time, an entity recognises revenue over the relevant period by selecting an appropriate method to measure the progress made with respect to the complete satisfaction of the performance obligation.

Use of estimates and assumptions in preparing the interim condensed consolidated financial statements

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

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

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

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- 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 interim condensed consolidated financial statements.

Domestic tax group election

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

Audit

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

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.
For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

Financial assets held for trading

Recognition

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

Classification

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

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date (fair value Level 1).
Italian and foreign government bonds, 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 in the principal market on the assessment date or, in the absence thereof, in 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 see the section entitled "Securitisations" in "Other information" in this part of the report entitled "Main captions in the financial statements").
Transfers from "Financial assets available for sale" and "Financial assets held for trading" to "Loans and receivables" 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.
This includes 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.

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 non-performing 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 (microhedging 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 booked to other assets.

Measurement

Intangible assets are recognised in the balance sheet at purchase cost, including ancillary charges, less the amount of accumulated amortisation and impairment losses, if any.

Amortisation is calculated on a straight-line basis at rates that reflect the residual useful life of the asset in question.

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose.
The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.
On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.
As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).
As recommended by the Italian Valuation Standard Board, in the event that Banco Desio's market capitalisation (ordinary shares and savings shares) has remained below its consolidated shareholders' equity over the previous six months, a level II impairment must also be performed, with the sole objective of verifying whether there has been any impairment of the legal entity, Banco Desio Group.

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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 the same currency used for payment of the benefits due to employees. 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 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 booked to equity.

In accordance with International Standard IAS 21 the cumulative exchange differences on foreign investments may be booked 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 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.

  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.
Note that the contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS) are recognised in the income statement under caption "180 b) Other administrative costs", taking into account the recommendations of IFRIC 21 and the Bank of Italy communication of 19 January 2016.
In particular, the contribution (DGS) is accounted for when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

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.

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 S.p.A. 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.

Banca Popolare di Spoleto did not carry out any other reclassifications in subsequent years.

[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.

The following table shows the book values and fair values at 30 June 2017 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 Banca Popolare di Spoleto 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 30.06.2017	Fair value at 30.06.2017	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	1,435	1,545	24	26		54
Debt securities	AFS	L&R - banks	2,845	3,134	14	24		33
Debt securities	AFS	L&R - customers	1,098	1,155	17	14		14
Totale			**5,378**	**5,834**	**55**	**63**	**0**	**101**

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.

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.

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

For the purpose of the determination of fair value:

- medium to long term performing loans are measured by discounting future cash flows using a risk-free discount rate that is weighted based on credit risk; non-performing loans are measured at book value, which represents a reasonable approximation of their fair value (Level 3);

- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value (Level 3);
- bonds issued by Group banks are measured by discounting future cash flows and the application of a credit spread (Level 2);

- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (Level 3).

Process and sensitivity of valuations

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

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

- for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;
- the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;
- the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuation.

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

Fair value hierarchy

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

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

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

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

Other information

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

Quantitative information

Fair value hierarchy

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

Financial assets/liabilities designated at fair value	30.06.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	27,400	7,089	3,044	5,535	11,872	2,646
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,794,794	156,218	30,973	1,697,521	118,598	32,045
4. Hedging derivatives		140			2,591	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,822,194**	**163,447**	**34,017**	**1,703,056**	**133,061**	**34,691**
1. Financial liabilities held for trading		3,610	2,991		4,074	2,156
2. Financial liabilities designated at fair value through profit and loss					15,908	
3. Hedging derivatives		5,001			6,637	
Total		**8,611**	**2,991**		**26,619**	**2,156**

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 (1.68% compared with 1.85% at end-2016). These investments consist primarily of non-controlling interests classified as "Financial assets available for sale".

At 30 June 2017, the impact of applying the Credit Value Adjustment to derivatives with a positive mark-to-market amounts to 2 thousand euro (relating to trading derivatives); as regards instruments with a negative mark-to-market adjustment, there is no impact from applying the Debit Value Adjustment.

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	**2,646**		**32,045**			
2. Increases	**3,044**		**6,695**			
2.1. Purchases			6,270			
2.2. Profits posted to:						
2.2.1. Income statement	3,044					
- of which: capital gains	3,044					
2.2.2. Shareholders' equity						
2.3. Transfers from other levels			25			
2.4. Other increases			400			
3. Decreases	**2,646**		**7,767**			
3.1. Sales						
3.2. Redemptions						
3.3. Losses posted to:						
3.3.1. Income statement	2,246		7,748			
of which: capital losses	2,246		7,748			
3.3.2. Shareholders' equity			19			
3.4. Transfers to other levels						
3.5. Other decreases	400					
4. Closing balance	**3,044**		**30,973**			

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	**2,156**		
2. Increases	**2,991**		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	2,991		
- of which: capital losses	*2,991*		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	**2,156**		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,156		
- of which: capital gains	*2,156*		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**2,991**		

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	30.06.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	759,571	578,658	185,425					
2. Due from banks	211,303		5,663	206,013	112,838		10,316	102,696
3. Loans to customers	9,777,396		5,731,622	4,715,910	9,720,108		5,479,533	4,503,206
4. Investment property	1,145			1,036	1,154			1,036
5. Non-current assets and disposal groups held for sale								
Total	**10,749,415**	**578,658**	**5,922,710**	**4,922,959**	**9,834,100**		**5,489,849**	**4,606,938**
1. Due to banks	1,743,487			1,743,487	962,245			962,245
2. Due to customers	8,922,376			8,922,376	8,729,591			8,729,591
3. Debt securities in issue	1,172,078		1,150,826	25,262	1,393,884		1,361,453	25,825
4. Liabilities associated with assets held for sale								
Total	**11,837,941**		**1,150,826**	**10,691,125**	**11,085,720**		**1,361,453**	**9,717,661**

INFORMATION ON "DAY ONE PROFIT/LOSS"

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

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

MAIN BALANCE SHEET AND

INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	30.06.2017	31.12.2016
a) Cash	41,567	50,472
b) Demand deposits with central banks		
Total	**41,567**	**50,472**

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	17,777	1,485		3,224	1,446	
1.1. Structured securities	*2,463*			*1,868*		
1.2. Other debt securities	*15,314*	*1,485*		*1,356*	*1,446*	
2 Equity instruments	3,249			2,292		400
3. Mutual funds	6,294					
4. Loans						
4.1. Repurchase agreements						
4.2 Other						
Total A	**27,320**	**1,485**		**5,516**	**1,446**	**400**
B. Derivatives:						
1. Financial derivatives:	80	5,604	3,044	19	10,426	2,246
1.1 For trading	*80*	*5,604*	*3,044*	*19*	*9,891*	*2,246*
1.2 Connected with the fair value					*535*	
1.3 other						
2. Credit derivatives						
2.1 For trading						
2.2 Connected with the fair value						
2.3 other						
Total B	**80**	**5,604**	**3,044**	**19**	**10,426**	**2,246**
Total (A+B)	**27,400**	**7,089**	**3,044**	**5,535**	**11,872**	**2,646**

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 on Information on fair value.

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

Captions/Amounts	30.06.2017	31.12.2016
A. Cash assets		
1. Debt securities	**19,262**	**4,670**
a) Government and central banks	*16,795*	*2,797*
b) Other public entities		
c) Banks	*5*	*5*
d) Other issuers	*2,462*	*1,868*
2 Equity instruments	**3,249**	**2,692**
a) Banks	680	513
b) Other issuers:	2,569	2,179
- insurance companies		*141*
- financial companies	*654*	*492*
- non-financial companies	*1,915*	*1,546*
- other		
3. Mutual funds	**6,294**	
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**28,805**	**7,362**
B. Derivatives		
a) Banks	7,182	11,913
- Fair value	*7,182*	*11,913*
b) Customers	1,546	778
- Fair value	*1,546*	*778*
Total B	**8,728**	**12,691**
Total (A+B)	**37,533**	**20,053**

Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	30.06.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,736,242	146,218		1,631,315	118,598	
1.1. Structured securities		*7,728*			*7,701*	
1.2. Other debt securities	*1,736,242*	*138,490*		*1,631,315*	*110,897*	
2 Equity instruments		10,000	21,190	25		19,963
2.1 Valued at fair value		*10,000*	*16,172*	*25*		*15,746*
2.2 Valued at cost			*5,018*			*4,217*
3 Mutual funds	58,552		9,783	66,181		12,082
4. Loans						
Total	**1,794,794**	**156,218**	**30,973**	**1,697,521**	**118,598**	**32,045**

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.

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

Captions/Amounts	30.06.2017	31.12.2016
1. Debt securities	**1,882,460**	**1,749,913**
a) Government and central banks	1,743,055	1,638,238
b) Other public entities		
c) Banks	104,465	96,197
d) Other issuers	34,940	15,478
2 Equity instruments	**31,190**	**19,988**
a) Banks	10,828	25
b) Other issuers:	20,362	19,963
- insurance companies		
- financial companies	*5,180*	*5,179*
- non-financial companies	*15,170*	*14,154*
- other	*12*	*630*
3. Mutual funds	**68,335**	**78,263**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,981,985**	**1,848,164**

Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

Type of transaction/Amounts	30.06.2017				31.12.2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	759,571	578,658	185,425					
- Structured								
- other	*759,571*	*578,658*	*185,425*					
2. Loans								

Key

FV = fair value

BV = book value

During the first half of the year, the Held to Maturity Portafoglio has been reinstated; See the Interim consolidated report on operations for more details.

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

	30.06.2017	31.12.2016
1. Debt securities	**759,571**	
a) Government and central banks	574,561	
b) Other public entities		
c) Banks	124,468	
d) Other issuers	60,542	
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**759,571**	
Total FV	**764,083**	

Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	30.06.2017				31.12.2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**146,108**			146,108	**78,591**			78,591
1. Restricted deposits								
2. Reserve requirement	146,108				78,591			
3. Repurchase agreements								
4. Other								
B Due from banks	**65,195**				**34,247**			
1. Loans	59,905			59,905	24,105			24,105
1.1 Current accounts and demand deposits	21,694				12,212			
1.2 Restricted deposits	34,359				7,979			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2. Other	34,359				7,979			
1.3. Other loans:	3,852				3,914			
- Repurchase agreements								
- Finance leases								
- Other	3,852				3,914			
2. Debt securities	5,290		5,663		10,142		10,316	
2.1. Structured securities	3,855				3,799			
2.2 Other debt securities	1,435				6,343			
Total	**211,303**		**5,663**	**206,013**	**112,838**		**10,316**	**102,696**

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 Parent Company's commitment to maintain the reserve requirement, also on behalf of its subsidiary Banca Popolare di Spoleto amounts to Euro 90.3 million at 30 June 2017 (versus Euro 87.5 million at December 2016) of which Euro 58.7 million by Banco Desio and Euro 31.6 million by Banca Popolare di Spoleto S.p.A..

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

Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	30.06.2017						31.12.2016					
	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	**8,898,420**		**877,878**		**5,730,467**	**4,715,910**	**8,808,817**		**910,206**		**5,478,408**	**4,503,206**
1. Current accounts	1,588,804		202,184				1,524,805		198,325			
2. Repurchase agreements	8,131						211,681					
3. Mortgage loans	5,324,077		636,367				5,047,390		632,028			
4. Credit cards, personal loans and assignments of one-fifth of salary	624,246		4,839				589,740		5,173			
5. Finance leases	252,582		19,017				284,550		17,001			
6. Factoring	24,915		1,620				35,236		290			
7. Other loans	1,075,665		13,851				1,115,415		57,389			
Debt securities	**1,098**				**1,155**		**1,085**				**1,125**	
8. Structured securities	1,098						1,085					
9. Other debt securities												
Total	**8,899,518**		**877,878**		**5,731,622**	**4,715,910**	**8,809,902**		**910,206**		**5,479,533**	**4,503,206**

Gross loans totalled Euro 10,601,923 thousand (Euro 10,550,641 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 write-downs amount to Euro 850,533 thousand (Euro 830,533 thousand in December 2016).

"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 1,711,054 thousand.

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

This caption includes the interest accrued at 30 June 2017 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	30.06.2017			31.12.2016		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities	**1,098**			**1,085**		
a) Governments						
b) Other public entities						
c) Other issuers	1,098			1,085		
- non-financial companies						
- financial companies	*1,098*			*1,085*		
- insurance companies						
- other						
2. Loans to:	**8,898,420**		**877,878**	**8,808,817**		**910,206**
a) Governments	23,347			23,204		
b) Other public entities	9,396		669	3,184		7
c) Other parties	8,865,677		877,209	8,782,429		910,199
- non-financial companies	*5,674,052*		*652,923*	*5,570,321*		*677,103*
- financial companies	*132,514*		*973*	*345,148*		*982*
- insurance companies	*6,457*			*1,436*		*200*
- other	*3,052,654*		*223,313*	*2,865,524*		*231,914*
Total	**8,899,518**		**877,878**	**8,809,902**		**910,206**

7.3 Loans to customers: assets with specific hedges

	30.06.2017	31.12.2016
1. Loans with specific fair value hedges	5,798	7,523
a) Interest rate risk	5,798	7,523
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	**5,798**	**7,523**

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

Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	30.06.2017				31.12.2016			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives		140		16,883		2,591		31,298
1) Fair value		140		16,883		2,591		31,298
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**140**		**16,883**		**2,591**		**31,298**

Key

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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/Members of the group	30.06.2017	31.12.2016
1. Positive adjustments	**925**	**1,543**
1.1 of specific portfolios:	925	1,543
a) loans	*925*	*1,543*
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	**925**	**1,543**

The adjustment to financial assets with generic hedges ("macrohedging") 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.

9.2 Assets with generic hedges for interest rate risk

	30.06.2017	31.12.2016
1. Loans and receivables	6,286	7,016
2. Financial assets available for sale		
3. Portfolio		
Total	**6,286**	**7,016**

At 30 June 2017, 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.

Property, plant and equipment - caption 120

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

Assets/Amounts	30.06.2017	31.12.2016
1 Own assets	**178,986**	**180,047**
a) land	53,108	52,564
b) property	107,054	107,506
c) furniture	5,146	5,607
d) electronic systems	4,601	4,930
e) other	9,077	9,440
2 Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**178,986**	**180,047**

There are no assets held under finance leases at the reporting date.

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	30.06.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,145**			**1,036**	**1,154**			**1,036**
a) land	498			426	498			426
b) property	647			610	656			610
2. Assets purchased under finance leases								
a) land								
b) property								
Total	**1,145**			**1,036**	**1,154**			**1,036**

Intangible assets - caption 130

13.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2017		31.12.2016	
	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	1,828		2,521	
A.2.1 Carried at cost:	1,828		2,521	
a) Intangible assets generated internally				
b) Other assets	1,828		2,521	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	**1,828**	**15,322**	**2,521**	**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 four or five years, based on the useful life specified within the asset category.

Analysis of trigger events for impairment testing of goodwill

According to IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, an impairment test on cash generating units (CGU), which for Banco Desio coincide with the legal entities, is carried out at each period end.

impairment testing, unchanged compared with 31 December 2016, is designed to check that the *carrying amount* of the CGU does not exceed its *recoverable amount,* defined as the higher of fair *value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGUs.*

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

The analysis of *trigger* events was carried out for the main assumptions considered in the context of the *impairment* test carried out for financial statement purposes at 31 December 2016. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of *risk* -weighted assets (RWA), capital ratios (with particular reference to capital absorption) and the *cost of equity* (Ke).

As a result of this analysis, no trigger events of an endogenous (performance) nature were identified for the CGUs, whereas a trigger event of an exogenous nature was identified regarding the rise in the cost of equity (Ke) at 30 June 2017 compared to the prior year figure, due to the increase in interest rates on long term government bonds and of the market risk premium (Italy); for this reason, the impairment tests were updated at the reporting date of 30 June 2017.

Impairment testing of goodwill

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.

In line with the impairment policy, the 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; 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. 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 S.p.A.", "Banca Popolare di Spoleto" and Fides S.p.A., 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 take into account the events occurred in the economic and financial scenario of the period 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	DDM	Budget 2017 and forecast to 2021 (*)	0.44%	9.81%	2.30%	Net results	CET 1 8.50% (****)
Banca Popolare di Spoleto	DDM	Budget 2017 and forecast to 2021 (**)	0.91%	9.81%	2.30%	Net results	CET 1 8.50% (****)
Fides	DDM	Budget 2017 and forecast to 2021 (***)	9.06%	11.31%	2.30%	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

(**) 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

(****) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no writedown was needed of the 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 p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza	19.29%	244
Banca Popolare di Spoleto	9.92%	103
Fides	31.15%	508

Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) in the period was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole.

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 take into account the events occurred in the economic and financial scenario of the period 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.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	Budget 2017 and forecast to 2021 (*)	1.20%	9.81%	2.30%	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 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.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco Desio Group	7.85%	82

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

14.1 Deferred tax assets: breakdown

			30.06.2017	31.12.2016
A) With contra-entry to the income statement:				
Tax losses	468		468	1,330
Tax deductible goodwill	4,499	911	5,410	5,653
Write-down of loans to customers deductible on a straight-line basis	137,788	17,657	155,445	162,277
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	1		1	1
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	148		148	148
Provision for guarantees and commitments and country risk	612		612	810
Provisions for personnel costs	7,881	1,429	9,310	10,359
Provision for lawsuits	4,175	47	4,222	4,051
Provision for claw-backs	925	187	1,112	1,465
Provision for sundry charges	542		542	466
Tax provision for termination indemnities	313		313	358
Entertainment expenses, one third of which is deductible over four subsequent years	203		203	
Other general expenses deductible in the following year		588	588	203
Other	1,867	395	2,262	1,971
Total A	**159,727**	**21,214**	**180,941**	**189,397**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	612		612	725
Write-down of securities classified as AFS	5,482	1,113	6,595	5,664
Other	1,002	196	1,198	1,216
Total B	**7,096**	**1,309**	**8,405**	**7,605**
Total (A+B)	**166,823**	**22,523**	**189,346**	**197,002**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2017	31.12.2016
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	7,563
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	551		551	
Other	8,364	1,425	9,789	11,391
Total A	**16,104**	**2,412**	**18,516**	**19,567**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	462	94	556	154
Revaluation of AFS securities	5,606	1,143	6,749	6,712
Revaluation of equity investments	43	173	216	216
Tax provision for termination indemnities	18		18	
Total B	**6,129**	**1,410**	**7,539**	**7,082**
Total (A+B)	**22,233**	**3,822**	**26,055**	**26,649**

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

Other assets - caption 160

16.1 Other assets: breakdown

	30.06.2017	31.12.2016
Tax credits		
- capital	8,471	8,487
- interest		
Amounts recoverable from the tax authorities for advances paid	33,267	44,663
Withholding tax credits	5	5
Cheques negotiated to be cleared	23,141	20,023
Guarantee deposits		
Invoices issued to be collected	4,189	895
Debtors for securities and coupons to be collected by third parties		19
Printer consumables and stationery		
Items being processed and in transit with branches	68,992	39,963
Currency spreads on portfolio transactions	186	257
Investments of the supplementary fund for termination indemnities	320	344
Leasehold improvement expenditure	14,098	15,123
Accrued income and prepaid expenses	4,592	971
Other items	51,768	47,000
Total	**209,029**	**177,680**

The balance of this caption at 30 June 2017 mainly relates to the Group banking sector.

The main elements of the amounts recoverable from the tax authorities for advances paid are:

- a receivable for withholding tax on interest on deposits and current accounts of Euro 3,324 thousand;
- a receivable for virtual stamp duty of Euro 24,528 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 5,213 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 19,993 thousand (16,002 thousand euro at the end of the previous year); the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 28,553 thousand di euro (5,164 thousand euro at the end of the previous year), and the recovery of commissions on lines of credit made available to customers, Euro 8,438 thousand (8,781 thousand euro at the end of the previous year). 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 11,418 thousand due from the liquidator of CPC S.A. in liquidation and Euro 576 thousand due from the liquidator of Rovere Societé de Gestion SA 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 614 thousand and Euro 26 thousand respectively);

- commissions and taxes awaiting collection for Euro 9,681 thousand;
- consideration receivable of Euro 18,280 thousand arising from transactions entered into at 30 June 2017 for the sale to specialist intermediaries of non-performing loans;
- Euro 1,480 thousand due following currency transactions;
- invoices to be issued for Euro 3,147 thousand.

LIABILITIES

Due to banks - caption 10

1.1 Due to banks: breakdown

	30.06.2017	31.12.2016
1. Due to central banks	**1,600,000**	**800,000**
2. Due to banks	**143,487**	**162,245**
2.1. Current accounts and demand deposits	32,281	36,275
2.2 Restricted deposits	7,683	372
2.3 Loans	102,801	125,454
2.3.1 Repurchase agreements		
2.3.2 Other	102,801	125,454
2.4. Payables for commitments to repurchase own equity instruments		
2.5 Other payables	722	144
Total	**1,743,487**	**962,245**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**1,743,487**	**962,245**
Total fair value	**1,743,487**	**962,245**

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).

Due to customers - caption 20

2.1 Due to customers: breakdown

	30.06.2017	31.12.2016
1. Current accounts and demand deposits	7,615,182	7,288,663
2. Restricted deposits	1,241,984	1,383,441
3. Loans	22,686	23,204
3.1 Repurchase agreements		
3.2 other	22,686	23,204
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	42,524	34,283
Total	**8,922,376**	**8,729,591**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**8,922,376**	**8,729,591**
Fair value	**8,922,376**	**8,729,591**

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 “Other payables” relate to: cashier's checks for Euro 37,710 thousand and checks for Euro 532 thousand (last year cashier's checks for Euro 30,673 thousand and checks for Euro 528 thousand respectively).

Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

Type of security/Amounts	30.06.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1 Bonds	1,146,816		1,150,826		1,368,059		1,361,453	
1.1 structured	*15,573*		*15,581*		*15,161*		*15,297*	
1.2 Other	*1,131,243*		*1,135,245*		*1,352,898*		*1,346,156*	
2. Other securities	25,262			25,262	25,825			25,825
2.1 structured								
2.2. Other	*25,262*			*25,262*	*25,825*			*25,825*
Total	**1,172,078**		**1,150,826**	**25,262**	**1,393,884**		**1,361,453**	**25,825**

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

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 21,149 thousand were issued with a short term maturity and Euro 4,048 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 65 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	Rate	30.06.2017	31.12.2016
Issued by the Parent Company						
ISIN Code IT0004815855	15.06.2012	15.06.2017	EUR	TV		13,014
ISIN Code IT0004921166	03.06.2013	03.06.2018	EUR	TV	12,849	13,022
ISIN Code IT0005038085	28.08.2014	28.08.2019	EUR	TV	49,966	50,049
ISIN Code IT0005070179	22.12.2014	22.12.2019	EUR	TV	49,977	49,919
ISIN Code IT0005107880	28.05.2015	28.05.2022	EUR	TV	79,920	79,454
ISIN Code IT0005136335	16.10.2015	16.10.2021	EUR	TV	50,137	49,873
Issued by Subsidiaries						
ISIN Code IT0004331598	15.04.2008	15.04.2018	EUR	TV	7,971	7,964
ISIN Code IT0004344278	18.04.2008	18.04.2018	EUR	TV	10,619	10,544
Totale					**261,439**	**273,839**

During the period, no further subordinated bonds were issued by the Group.

Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Members of the group	30.06.2017					31.12.2016				
	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			3,610	2,991				4,074	2,156	
1.1 For trading			3,610	2,991				4,074	2,156	
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			**3,610**	**2,991**				**4,074**	**2,156**	
Total A+B			**3,610**	**2,991**				**4,074**	**2,156**	

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.

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

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

Type of transaction/Amounts	30.06.2017					31.12.2016				
	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**
3.1 Structured						15,450		15,908		
3.2 Other										
Total						**15,450**		**15,908**		**16,151**

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 "3. Debt securities" reports financial liabilities that consist of bonds, which have been measured at fair value and which have been systematically hedged by the use of derivatives.

Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	30.06.2017				31.12.2016			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial		**5,001**		**138,433**		**6,637**		**140,589**
1) Fair value		3,437		8,433		3,859		10,589
2) Cash flows		1,564		130,000		2,778		130,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**5,001**		**138,433**		**6,637**		**140,589**

Key

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Other liabilities - caption 100

10.1 Other liabilities: breakdown

	30.06.2017	31.12.2016
Due to tax authorities	726	690
Amounts payable to tax authorities on behalf of third parties	125,481	24,554
Social security contributions to be paid	3,775	6,785
Dividends due to shareholders	27	24
Suppliers	13,409	13,564
Amounts available to customers	36,965	23,343
Interest and dues to be credited		51
Payments against bill instructions	325	6,645
Early payments on loans not yet due	132	60
Items being processed and in transit with branches	118,671	81,940
Currency differences on portfolio transactions	212,312	18,119
Due to personnel	16,981	18,101
Sundry creditors	16,461	18,105
Provisions for guarantees given and commitments	3,731	5,947
Accrued expenses and deferred income	9,402	2,126
Total	**558,398**	**220,054**

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.

The most significant component of "Amounts available to customers" consists of sums to be credited to customers for foreign transactions amounting to Euro 24,715 thousand.

"Items being processed and in transit with branches" include transactions that are usually settled within the first few days of the following half-year. The main components thereof relate to bank transfers being processed of Euro 98,191 thousand (Euro 68,427 thousand at the prior year end), to SDDs (Sepa Direct Debits) being processed of Euro 4,018 thousand (Euro 2,824 thousand at the prior year end) and to MAV (payment by advice) collections of Euro 1,830 thousand (Euro 2,349 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 13,462 thousand (Euro 14.983 thousand at the end of 2016) and the year end balance of the amount due for holiday pay of Euro 2,738 thousand (Euro 2,629 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for 6,525 thousand euro (1,336 thousand euro at the end of last year), creditors for bills withdrawn for 1,192 thousand euro (762 thousand euro at the end of 2016) and bank transfers being processed for 3,296 thousand euro (1,799 thousand euro at the end of last year).

Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Items/Components	30.06.2017	31.12.2016
1. Pensions and similar commitments		
2. Other provisions for risks and charges	51,126	55,282
2.1 Legal disputes	*18,920*	*19,458*
2.2 Personnel expenses	*28,900*	*32,221*
2.3 Other	*3,306*	*3,603*
Total	**51,126**	**55,282**

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 15,558 thousand relates to legal disputes (Euro 15,026 thousand at the end of last year) and Euro 3,362 thousand relates to bankruptcy clawback actions (Euro 4,432 thousand at the end of 2016). In application of IFRS 3, the provision for bankruptcy clawback actions includes Euro 500 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 regarding the Solidarity fund, Euro 16,389 thousand (Euro 17,954 thousand last year); the bonus system, Euro 4,477 thousand (Euro 7,141 thousand last year), and the long-service and additional holiday awards, Euro 3,061 thousand (Euro 3,342 thousand last year).

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

- provisions relating to tax dispute for 31 thousand euro (123 thousand euro last year);
- provisions relating to tax risks for Euro 556 thousand (unchanged versus last year) 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 641 thousand for the estimated costs of winding-up CPC S.A. in liquidation and Rovere in liquidation (979 thousand euro last year);
- provisions for contractual indemnities due to financial advisors of Euro 389 thousand (Euro 358 thousand at the prior year end).

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

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

	30.06.2017	31.12.2016
A. Share capital	**67,705**	**67,705**
A.1 - Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**67,705**	**67,705**

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

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

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

Minority interests - caption 210

16.1 Details of caption 210 "Minority interests"

Company name	30.06.2017	31.12.2016
Equity investments in consolidated companies with significant minority interests	**50,698**	**50,381**
Banca Popolare Spoleto S.p.A.	50,694	50,381
Desio OBG S.r.l.	4	
Other equity investments	**-**	**-**
Total	**50,698**	**50,381**

INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2017	30.06.2016
1. Financial assets held for trading	67		46	113	352
2. Financial assets designated at fair value through profit and loss					
3. Financial assets available for sale	6,956			6,956	6,961
4. Financial assets held to maturity	652			652	
5. Due from banks	109	142		251	285
6. Loans to customers	14	132,906		132,920	150,853
7. Hedging derivatives					
8. Other assets			4	4	2
Total	**7,798**	**133,048**	**50**	**140,896**	**158,453**

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 at the end of June amounts to Euro 8,164 thousand (Euro 9,369 thousand in June 2016).

Conversely, the caption includes default interest collected in the period of Euro 179 thousand (Euro 394 thousand in June last year).

The achievement of the net increase in lending benchmark, for which Banco Desio Group has a commitment with the Eurosistema as part of the "TLTRO II" operation, would give rise to the right to earn negative interest at a rate of 0.40%. To date, no benefit has been recognised, though Banco Desio Group has implemented lending policies aimed at the achievement of the established benchmark.

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2017	30.06.2016
1. Due to central banks	(597)			(597)	(417)
2 Due to banks	(170)			(170)	(193)
3. Due to customers	(12,121)			(12,121)	(18,202)
4. Debt securities in issue		(12,353)		(12,353)	(19,425)
5. Financial liabilities held for trading					(27)
6. Financial liabilities designated at fair value through profit and loss		(48)		(48)	(342)
7. Other liabilities and provisions			(47)	(47)	(5)
8. Hedging derivatives			(484)	(484)	(36)
Total	**(12,888)**	**(12,401)**	**(531)**	**(25,820)**	**(38,647)**

1.5 Interest and similar expense: differentials on hedging transactions

Captions	30.06.2017	30.06.2016
A. Positive differentials on hedging transactions	244	1,176
B. Negative differentials on hedging transactions	(728)	(1,212)
C. Balance (A-B)	**(484)**	**(36)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.06.2017	30.06.2016
a) guarantees given	1,544	1,680
b) credit derivatives		
c) management, brokerage and consulting services:	30,081	23,870
1. trading in financial instruments		
2. trading in foreign exchange	831	826
3. asset management	3,566	3,028
3.1. individual	3,243	2,691
3.2. collective	323	337
4. custody and administration of securities	916	916
5. custodian bank		
6. placement of securities	10,601	9,522
7. order taking	3,196	3,053
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	10,971	6,525
9.1. asset management	204	155
9.1.1. individual	204	155
9.1.2. collective		
9.2 insurance products	8,531	4,550
9.3 other products	2,236	1,820
d) collection and payment services	14,294	14,371
e) servicing related to securitisation	27	33
f) services for factoring transactions	62	80
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	34,960	35,035
j) other services	5,376	9,930
Total	**86,344**	**84,999**

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 1,857 thousand (Euro 6,166 thousand last year), recoveries of expenses on customer collection and payments for Euro 466 thousand (Euro 442 thousand last year), fees for the Internet banking service of Euro 752 thousand (Euro 691 thousand last year) and recoveries of expenses on mortgage instalments for Euro 600 thousand (Euro 539 thousand last year) and other recoveries of expenses for Euro 512 thousand last year (Euro 544 thousand last year).

The change in commission income for transactions for the assignment of one fifth of salary charged contractually to customers is attributable to a revision of the pricing system in the period.

2.2 Commission expense: breakdown

Services/Amounts	30.06.2017	30.06.2016
a) guarantees received	(160)	(186)
b) credit derivatives		
c) management and brokerage services	(1,006)	(1,051)
1. trading in financial instruments	(57)	(50)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(845)	(635)
5. placement of financial instruments	(104)	(366)
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(1,745)	(1,787)
e) other services	(3,413)	(7,080)
Total	**(6,324)**	**(10,104)**

Commissions for "other services" include fees relating to remuneration of the network of financial advisors for Euro 2,700 thousand (Euro 6,390 thousand last year). As was the case for commission income, the change in commission payable to the distribution network for transactions for the assignment of one fifth of salary is attributable to a revision of the pricing system in the period.

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2017		30.06.2016	
	Dividends	Income from UCITS units	Dividends	Income from Mutual funds
A. Financial assets held for trading	17		29	
B. Financial assets available for sale	593		945	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	**610**		**974**	

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

Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**202**	**1,012**	**(1,123)**	**(358)**	**(267)**
1.1 Debt securities		525	(265)	(140)	120
1.2 Equity instruments	202	314	(280)	(40)	196
1.3 Mutual funds		2	(578)	(147)	(723)
1.4 Loans					
1.5 Other		171		(31)	140
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**	**1,333**
4. Derivatives	**524**	**5,525**	**(287)**	**(4,417)**	**1,294**
4.1 Financial derivatives:	524	5,525	(287)	(4,417)	1,345
- On debt securities and interest rates	461	4,508	(287)	(3,452)	1,230
- On equities and equity indices	62	845		(849)	58
- On currency and gold	x	x	x	x	(51)
- Other	1	172		(116)	57
4.2 Credit derivatives					
Total	**726**	**6,537**	**(1,410)**	**(4,775)**	**2,360**

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

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

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	30.06.2017	30.06.2016
A. Income relating to:		
A.1 Fair value hedges	421	19
A.2 Hedged financial assets (fair value)		1,301
A.3 Hedged financial liabilities (fair value)	168	820
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**589**	**2,140**
B. Charges relating to:		
B.1 Fair value hedges	(183)	(2,898)
B.2 Hedged financial assets (fair value)	(632)	
B.3 Hedged financial liabilities (fair value)	(24)	
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(839)**	**(2,898)**
C. Net hedging gains (losses) (A-B)	**(250)**	**(758)**

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

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2017			30.06.2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	2,572	(2,477)	95	1,105		1,105
3. Financial assets available for sale	10,045	(7,454)	2,591	10,656	(3,095)	7,561
3.1 Debt securities	6,462	(5,263)	1,020	9,839	(2,937)	6,902
3.2 Equity instruments		(1,685)	(1,685)	6		6
3.3 Mutual funds	3,583	(327)	3,256	811	(158)	653
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**12,617**	**(9,931)**	**2,686**	**11,761**	**(3,095)**	**8,666**
Financial liabilities						
1. Due to banks						
2. Due to customers		2	2			
3. Debt securities in issue	54	(430)	(376)	167	(1,079)	(912)
Total liabilities	**54**	**(428)**	**(374)**	**167**	**(1,079)**	**(912)**

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 line with the pro-active strategy for the management of non-performing loans previously disclosed by the Bank as part of the prior year financial reporting process and in compliance with the guidelines issued by the European Central Bank, as at 30 June 2017, a number of transactions had been entered for the sale to specialist intermediaries of loan portfolios consisting mainly of secured non-performing loans, amounting to a total nominal value complessivo of Euro 40.3 million, which were sold for a consideration of approximately Euro 18.3 million.

These disposals, which identified further losses of Euro 719 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 814 million with respect to the carrying amounts of the loans sold. As a result, a net disposal gain of Euro 95 million was recorded, gross of tax effect.

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.

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)]
1. **Financial assets**					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities		**27**			**27**
2.1 Debt securities		27			27
2.2 Due to banks					
2.3. Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives		**2**	**(37)**		**(35)**
Total		**29**	**(37)**		**(8)**

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.

Net impairment adjustments - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2017	30.06.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(3,229)	(71,648)	(1,401)	13,093	30,297		3,050	(29,838)	(43,447)
Non-performing loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(3,229)	(71,648)	(1,401)	13,093	30,297		3,050	(29,838)	(43,447)
- Debt securities									
C. Total	**(3,229)**	**(71,648)**	**(1,401)**	**13,093**	**30,297**		**3,050**	**(29,838)**	**(43,447)**

Key
A = Interest
B = Other write-backs

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

As regards "Write-downs" the figure in the "Write-offs" column relates to losses from the write-off of 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 36,611 thousand euro (52,290 thousand euro in June 2016);
- Unlikely to pay for 33,816 thousand euro (41,696 thousand euro in June 2016);
- Past due loans for 1,221 thousand euro (2,690 thousand euro in June 2016)

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

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

B - Other specific write-backs relate to:

- collections of loans previously written down Euro 15,625 thousand
- write-backs Euro 13,866 thousand
- write-backs relative to non-performing loans amortised in previous years Euro 806 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)		30.06.2017	30.06.2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities						(20)
B. Equity instruments		(1,811)			(1,811)	(122)
C. Mutual funds		(7,197)			(7,197)	
D. Loans to banks						
E. Loans to customers						
F. Total		**(9,008)**			**(9,008)**	**(142)**

Key
A = Interest
B = Other write-backs

Caption "B. Equity instruments" is composed by the impairment of a banking minority investment held as a result of a previously undertaken commitment following the sale of an assurance equity investment.

Caption "C. Mutual funds" is composed by the impairment of Euro 4,140 thousands related to Fondo Atlante, of which:

- Euro 557 thousands balanced with the provisions of the same amount related to the commitment recognized at the end of the previous year;
- Euro 3,583 thousands following the write-off of the bank investments held by the Fund made in current period.

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2017	30.06.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(192)	(62)		230		2,240	2,216	1,163
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E. Total		**(192)**	**(62)**		**230**		**2,240**	**2,216**	**1,163**

Key
A = Interest
B = Other write-backs

Caption "Write-back – Portfolio" incorporates the use of Euro 557 thousands related to the provisions of the same amount related to the commitment recognized at the end of the previous year.

Administrative expenses - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	30.06.2017	30.06.2016
1) Employees	(87,090)	(86,418)
a) Wages and salaries	(59,241)	(58,780)
b) Social security charges	(15,583)	(15,106)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(169)	(259)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(5,386)	(5,316)
- defined contribution	(5,386)	(5,316)
- defined benefit		
h) Equity-based payments		
i) Other personnel benefits	(6,711)	(6,957)
2) Other active employees	(210)	(374)
3) Directors and auditors	(2,106)	(2,277)
4) Retired personnel		
Total	**(89,406)**	**(89,069)**

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

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

11.2 Average number of employees by level

	30.06.2017	30.06.2016
1) Employees	**2,350**	**2,364**
a) managers	34	36
b) middle managers	1,100	1,083
c) other employees	1,216	1,245
2) Other personnel	**4**	**4**

11.4 Other personnel benefits

	30.06.2017	30.06.2016
Provision for sundry charges	(3,358)	(4,183)
Contributions to healthcare fund	(971)	(952)
Training and instruction costs	(641)	(194)
Rent expense of property used by employees	(157)	(195)
Redundancy incentives	(33)	(172)
Other	(1,551)	(1,261)
Total	**(6,711)**	**(6,957)**

The main components of the "Other" caption include company canteen costs of Euro 855 thousand (Euro 1,100 thousand in June 2016) and costs relating to insurance premiums of Euro 252 thousand (Euro 210 thousand in June 2016).

11.5 Other administrative costs: breakdown

	30.06.2017	30.06.2016
Indirect taxes and duties:		
- Stamp duty	(12,767)	(12,824)
- Other	(3,057)	(2,922)
Other costs:		
- IT expenses	(8,916)	(10,211)
- Lease of property and other assets	(6,891)	(7,188)
- Maintenance of buildings, furniture and equipment	(2,937)	(2,607)
- Post office and telegraph	(1,395)	(1,290)
- Telephone and data transmission	(2,902)	(2,874)
- Electricity, heating, water	(2,133)	(2,289)
- Cleaning services	(694)	(742)
- Printed matter, stationery and consumables	(605)	(762)
- Transport costs	(647)	(633)
- Surveillance and security	(1,297)	(1,006)
- Advertising	(738)	(952)
- Information and surveys	(1,126)	(1,007)
- Insurance premiums	(562)	(862)
- Legal fees	(2,791)	(3,393)
- Professional consulting fees	(3,291)	(3,996)
- Various contributions and donations	(37)	(134)
- Sundry expenses	(8,475)	(9,967)
Total	**(61,261)**	**(65,659)**

Sundry expenses include the contribution to the Single Resolution Mechanism (SRM) for Euro 3,489 thousand (Euro 3,779 thousand before), reimbursements to employees for travel expenses, mileage reimbursements for Euro 686 thousand (Euro 679 thousand in June 2016), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 1,017 thousand (Euro 1,310 thousand in June

2016), membership fees for Euro 546 thousand (Euro 718 thousand in June 2016) and subscriptions to newspapers and magazines for Euro 256 thousand (Euro 213 thousand in June 2016). The comparative period figure also included the contribution to the Interbank Fund Voluntary scheme for the intervention in favour of Banca Tercas of Euro 1,576 thousand (upon completion of the repayment of the contribution previously paid to the Interbank Fund of Euro 1,571 thousand, classified as write-backs of other financial transactions).

Net provisions for risks and charges - caption 190

12.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	30.06.2017	30.06.2016
Charges for legal disputes	(2,432)	70	(2,362)	(2,286)
Other	(422)	94	(328)	(458)
Total	**(2,854)**	**164**	**(2,690)**	**(2,744)**

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.

Net adjustments to property, plant and equipment - caption 200

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c) 30.06.2017
A. Property, plant and equipment				
A.1 Owned	(3,946)			(3,946)
- for business purposes	(3,938)			(3,938)
- for investment purposes	(8)			(8)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	**(3,946)**			**(3,946)**

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

Net adjustments to intangible assets - caption 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c) 30.06.2017
A. Intangible assets				
A.1 Owned	(1,000)			(1,000)
- *Generated internally*				
- *Other*	*(1,000)*			*(1,000)*
A.2 Held under finance leases				
Total	**(1,000)**			**(1,000)**

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

Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	30.06.2017	30.06.2016
Amortisation of leasehold improvements	(1,154)	(1,108)
Losses on disposal of property, plant and equipment		(27)
Charges on non-banking services	(1,456)	(1,073)
Total	**(2,610)**	**(2,208)**

15.2 Other operating income: breakdown

	30.06.2017	30.06.2016
Recovery of taxes from third parties	14,237	13,921
Recharge of costs of current accounts and deposits	5,160	6,251
Rental and leasing income	28	30
Other expense recoveries	6,254	5,798
Gains on disposal of property, plant and equipment	2	2
Other	725	1,269
Total	**26,406**	**27,271**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 3,570 thousand (Euro 4,766 thousand in June 2016) and other recoveries for various communications to customers of Euro 1,500 thousand (Euro 1,353 thousand in June 2016).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of Euro 2,581 thousand (Euro 2,641 thousand), the recovery of investigation costs of various loans for Euro 714 thousand (Euro 756 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 263 thousand (Euro 163 thousand), the recovery of sundry expenses relating to lease applications of Euro 193 thousand (Euro 266 thousand in 2016).

Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	30.06.2017	30.06.2016
1) Companies subject to joint control		
A. Income		5,254
1. Revaluations		
2. Gains on disposal		
3. Write-backs		
4. Other income		5,254
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		**5,254**
2) Associates (subject to significant influence)		
A. Income		287
1. Revaluations		287
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses		(437)
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		(437)
4. Other charges		
Net result		**(150)**
Total		**5,104**

The balance in the comparative period was made up of:

- "Other income" includes Euro 5,254 thousand as the difference between the value of the claim against the liquidators of CPC S.A. in liquidation and the value of the investment in CPC S.A. in liquidation which has been eliminated, after deducting the estimated costs for the company's cancellation, also taking into account the income of Euro 1,085 thousand relating to the reversal of future charges that had been already accrued in the consolidated financial statements at 31 December 2015;
- "The "Losses on disposal" of Euro 437 thousand reflect the negative result from selling the investment in Istifid S.p.A.

Gains (losses) on disposal of investments - caption 270

19.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	30.06.2017	30.06.2016
A. Property	41	
- Gains on disposal	41	
- Losses on disposal		
B) Other assets		
- Gains on disposal		
- Losses on disposal		
Net result	**41**	

Income taxes on current operations - caption 290

20.1 Income taxes on current operations: breakdown

Income items/Amounts	30.06.2017	30.06.2016
1. Current taxes (-)	(4,324)	(5,549)
2. Change in prior period income taxes (+/-)	2	(1)
3. Reduction in current taxes (+)		
3bis. Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(8,907)	(2,089)
5. Change in deferred tax liabilities (+/-)	2,836	2,165
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(10,393)**	**(5,474)**

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).

Earnings per share

	30.06.2017		30.06.2016	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	15,992	2,165	19,597	2,692
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)	**0.14**	**0.16**	**0.17**	**0.20**
Diluted earnings per share (Euro)	**0.14**	**0.16**	**0.17**	**0.20**

INFORMATION ON RISKS AND RELATED HEDGING POLICY

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 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 Group's commercial network (branches and Corporate Managers) 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 Group 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 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 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, resorting, for certain counterparties, to the use of ratings provided by authorised, external ECAIs.

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

Credit quality

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality		Non-performing loans	Unlikely to pay	Past due non-performing loans	Past due non-performing loans	Other performing exposures	Total
1. Financial assets available for sale		-	-	-	-	1,882,460	1,882,460
2. Financial assets held to maturity		-	-	-	-	759,571	759,571
3. Due from banks		-	-	-	-	211,303	211,303
4. Loans to customers		469,815	392,160	15,903	239,601	8,659,917	9,777,396
5. Financial assets designated at fair value through profit and loss		-	-	-	-	-	-
6. Financial assets being sold		-	-	-	-	-	-
Total	**30.06.2017**	**469,815**	**392,160**	**15,903**	**239,601**	**11,513,251**	**12,630,730**
Total	**31.12.2016**	**481,440**	**412,052**	**16,714**	**236,742**	**10,435,911**	**11,582,859**

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		-	-	-	1,882,460	-	1,882,460	1,882,460
2. Financial assets held to maturity		-	-	-	759,571	-	759,571	759,571
3. Due from banks		-	-	-	211,303	-	211,303	211,303
4. Loans to customers		1,489,647	(611,769)	877,878	8,943,887	(44,369)	8,899,518	9,777,396
5. Financial assets designated at fair value through profit and loss		-	-	-			-	-
6. Financial assets being sold		-	-	-	-	-	-	-
Total	**30.06.2017**	**1,489,647**	**(611,769)**	**877,878**	**11,797,221**	**(44,369)**	**11,752,852**	**12,630,730**
Total	**31.12.2016**	**1,509,201**	**(598,995)**	**910,206**	**10,720,240**	**(47,587)**	**10,672,653**	**11,582,859**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	-	27,990
2. Hedging derivatives		-	-	140
Total	**30.06.2017**	**-**	**-**	**28,130**
Total	**31.12.2016**	**-**	**31**	**19,920**

At 30 June 2017 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 81,298 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 30 June 2017 amounted to Euro 168,389 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 (the so-called "coverage ratio"), note that the total amount of gross non-performing loans at 30 June 2017 amounted to Euro 1,658 million and total write-downs to Euro 780 million (including BPS's non-performing loans and related write-downs).

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	From 3 to 6 months	From 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					440,241		-	440,241
- of which: exposures subject to forbearance					-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**440,241**	**-**	**-**	**440,241**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-		-		-
b) Performing					27,130		-	27,130
TOTAL B	**-**	**-**	**-**	**-**	**27,130**	**-**	**-**	**27,130**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**467,371**	**-**	**-**	**467,371**

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	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	332	6,910	25,997	909,441		472,865		469,815
- of which: exposures subject to forbearance	-	3,702	4,577	64,192		35,644		36,827
b) Unlikely to pay	176,901	60,541	83,580	207,882		136,744		392,160
- of which: exposures subject to forbearance	97,627	21,929	34,086	74,526		56,200		171,968
c) Past due non-performing loans	11,328	4,217	2,157	361		2,160		15,903
- of which: exposures subject to forbearance	8,423	198	1,768	2		1,254		9,137
d) Past due performing loans					243,162		3,561	239,601
- of which: exposures subject to forbearance					26,316		753	25,563
e) Other performing exposures					11,133,080		40,808	11,092,272
- of which: exposures subject to forbearance					161,700		2,619	159,081
TOTAL A	**188,835**	**71,668**	**111,734**	**1,117,684**	**11,376,242**	**611,769**	**44,369**	**12,209,751**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	11,827	-	-	14		1,272		10,569
b) Performing					427,159		2,459	424,700
TOTAL B	**11,827**	**-**	**-**	**14**	**427,159**	**1,272**	**2,459**	**435,269**
TOTAL (A+B)	**200,388**	**71,668**	**111,734**	**1,117,698**	**11,803,401**	**613,041**	**46,828**	**12,645,020**

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 30 June 2017; details are provided below:

a) Doubtful loans: euro 153,074 thousand;
b) Unlikely to pay: euro 15,312 thousand;
c) Past due non-performing loans: euro 3 thousand.

Classification of exposures on the basis of external and internal rating

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

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

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

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

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

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

Exposures at 30.06.2017	**Internal rating class**				
	from 1 to 4	**from 5 to 6**	**from 7 to 10**	**Financial and Institutional**	**Total**
Cash exposure	66.36%	25.67%	6.47%	1.51%	100%
Off-balance sheet exposures	79.35%	16.65%	3.24%	0.76%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 June 2017 is reported below:

Description	***Nominal amount***	***Weighted amount***	***Number of positions***
Large exposures	2,592,891	178,095	3

The positions indicated mainly relate to exposures towards the Italian Government, concerning securities in portfolio and tax assets, of the Spanish Kingdom fully made of government securities and of the Bank of Italy.

1.2 MARKET RISK

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

Qualitative information

A. General aspects

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

The information in this section refers only to 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 provided by Bloomberg.

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

Quantitative information

Regulatory trading book: internal models and other methodologies used for sensitivity analysis

The monitoring of the "trading portfolio reported for supervisory purposes" in the first half of 2017 evidenced a structure with limited market risks. Related VaR at 30.06.2017 amounted to Euro 122 thousand, with a percentage of 0.46% 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.

Quantitative information

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

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value 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 30.06.17, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 30.06.17

	+100 bps	***-100 bps***
% of the expected margin	*4.87%*	*-23.82%*
% of net interest and other banking income	*3.02%*	*-14.79%*
% of the result of the year	*20.85%*	*-101.96%*
% of shareholders' equity	*0.89%*	*-4.36%*

With regard to the economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure for the first half of 2017 that has been maintained at levels that do not result in significant impacts on total capital.

The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 30.06.2017.

	+100 bps	***-100 bps***
% of the economic value	*-4.89%*	*3.04%*

1.2.3. EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal. As regards only the Italian banks, forex operations are managed by the Operations Room of the Parent Company's Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

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

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

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

1.3. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The 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.

1.4. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

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

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

- 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 was implemented some time ago that 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 compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), the Group set up the ICT Governance Function and ICT Area (within the Parent Company) and adopted:

- Security Policy;
- Accident Management;
- IT Risk Assessment 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 period, together with the related provisions:

	Number	**Claim**	**Provisions**
Claw-back suits	21	€ 23.444 million	€ 3.364 million
Other lawsuits	722	€ 118.001 million	€ 14.705 million

The principal disputes (claims in excess of Euro 1 million) involving Banco di Desio e della Brianza are described below:

- CLAIM € 3.602 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 suit is currently being decided;
- 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 Supreme 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. The receivership has served notice of an injunction for a sum of € 1.2 million and Banco Desio has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that, in the meantime, an appeal had been made to the Supreme Court. The judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered Banco Desio to pay a sum of € 1.2 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by Banco Desio against the Court of Appeal's decision;
- 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, but, as things now stand, a date has not yet been set for the hearing by the Supreme Court;
- CLAIM € 3.052 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The suit is in its initial phase;

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, after having rejected the request for an investigation advanced by the appellant, has taken the case under submission;
- 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 suit has been decided;
- 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. The findings of the court expert have been admitted and must be lodged for the hearing of 30 November 2017;

- 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 13 October 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. An evidentiary hearing has been scheduled for 3 October 2017;
- 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) € 1.9 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. A hearing has been scheduled for 5 October 2017 for the appointment of the court expert and to hear testimonial evidence;
- 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 scheduled for 3 October 2017;
- 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 14 November 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 judge has reserved judgement on the evidence. 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, the counterparty brought legal proceedings against Banca Popolare di Spoleto 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 million. 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: compound interest charges and departure from contractual conditions; 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, which had been set for 7 March 2017, had been postponed until 27 June 2017 and, on that occasion, the judge scheduled a hearing for 9 January 2018 for the submission of documents and the admission of any evidence;
- CLAIM € 1.136 million: one of the founding members of a cooperative, which is now in liquidation, has alleged that it had obtained, via the cooperative, various loans granted by other banks, upon the issue of guarantees by the cooperative. In July 2013, the plaintiff claims it had agreed with the cooperative to fully settle the loans obtained from the latter. Upon the settlement thereof, the cooperative should have arranged for the plaintiff to be freed of its guarantee commitments that had been assumed towards the other banks. According to the plaintiff, however, this has not been done. The plaintiff has thus also summoned before the Court of Perugia, for the hearing set for 21 December 2017, all the members of the Board of Directors as from 23/05/2013 (among which is the Bank) and demands that they be ordered to pay, jointly and severally along with the cooperative, a sum of € 1.1 million as compensation for damages. The suit is in its initial phase;
- CLAIM € 2.9 million: this relates to legal proceedings initiated by the counterparty in opposition to an injunction obtained by the Bank that enforced on the counterparty, as guarantor for the payment of approximately € 2.9 million, three debit balances on current accounts (of which two are mortgage current accounts) arranged by another company. The claimant pleads limitation pursuant to art. 1957 of the Italian Civil Code, unfounded grounds for the payment claim due to the illegitimate application of compound interest, the fact that the threshold rate had allegedly been exceeded and the illegitimate application of maximum overdraft charges. The counterparty has submitted a counterclaim (of an indeterminate amount - subject to the findings of the court appointed expert witness) and has demanded damages (also of an indeterminate amount - on an equitable basis). The opposition is based on generic claims and it has been demanded that these be submitted, on an exploratory basis, to a court appointed expert. The Bank has appointed a lawyer to appear in court. The first hearing in the presence of the parties has been scheduled for 25 October 2017;
- CLAIM € 1.0 million: in a preventive summons, the counterparty contends that the Bank, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of € 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. The hearing in the presence of the parties, initially scheduled for 10 July 2017, has been postponed to a date to be decided;
- CLAIM € 5.5 million: in opposition to an injunction, notified to demand payment of an amount due arising from the failure to honour a mortgage loan repayment, the counterparty pleads that the Bank does not have any right to act by way of enforcement against the immovable property indicated in the injunction and the failure to indicate therein the interest rate and the nature of the computation performed, with a consequent absence of proof of the quantum. The arguments set out in the

opposition to the injunction appear instrumental and pretentious. The Bank has appointed a lawyer to appear in court. The first hearing in the presence of the parties has been scheduled for 20 October 2017.

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. 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. The next hearing for the admission of evidence has been scheduled for 21 September 2017 and the first hearing of the suit filed against the former Statutory Auditors has been scheduled for 14 September 2017.

Quantitative information

The number of detrimental events recorded by the Group in the course of the first half of 2017, comes to 1,606. 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	0.19%	9.92%	6.17%	41.01%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	1.62%	13.09%	13.72%	0.53%
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	0.31%	2.74%	2.89%	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)	18.49%	48.09%	50.67%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.31%	0.32%	0.34%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.44%	1.11%	1.17%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	78.64%	24.72%	25.05%	3.80%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**5.08%**

The gross operating loss comes to Euro 3,358 thousand, for which prudent provisions were made during the year of Euro 2,105 thousand. Of the total gross loss, an amount was recovered of Euro 170 thousand, resulting in a net loss of Euro 3,187 thousand.

INFORMATION ON THE 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, other 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	30.06.2017
Share capital	125,457				125,457
Share premium reserve	31,594				31,594
Reserves	739,042				739,042
- revenue reserves:	721,430				721,430
a) legal reserve	93,426				93,426
b) statutory reserve	535,468				535,468
c) reserve for treasury shares	51				51
d) other	92,485				92,485
- other	17,612				17,612
Equity instruments					
(Treasury shares)	(51)				(51)
Valuation reserves:	10,296				10,296
- Financial assets available for sale	(9,175)				(9,175)
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash-flow hedges	(969)				(969)
- Exchange differences					
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(2,456)				(2,456)
- Portion of valuation reserves relating to investments carried at equity					
- Special revaluation laws	22,896				22,896
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	18,631				18,631
Shareholders' equity	**924,969**				**924,969**

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		81	(11,855)							81	(11,855)
2. Equity instruments		3,703								3,703	
3. Mutual funds		358	(991)							358	(991)
4. Loans											
Total	**30.06.2017**	**4,142**	**(12,846)**							**4,142**	**(12,846)**
Total	**31.12.2016**	**4,321**	**(11,188)**							**4,321**	**(11,188)**

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 Own Funds

A. Qualitative information

The elements included in Own Funds, as the basis of the capital adequacy requirements that banks must satisfy, are defined 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 30 June 2017, Banco Desio Group's Own Funds consist of the following:

Description	30.06.2017	31.12.2016
Common Equity Tier 1 (CET 1)	890,573	877,773
Additional Tier 1 capital (AT1)	10,677	11,432
Tier 2 capital (T2)	176,438	195,782
Total Own Funds	**1,077,688**	**1,084,987**

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

	30.06.2017	31.12.2016
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	894,212	885,675
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-2	-18
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	894,210	885,657
D. Items to be deducted from CET 1	17,039	18,594
E. Transitional provisions – Impact on CET 1 (+/-)	13,402	10,710
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	**890,573**	**877,773**
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	14,109.80	14,177.86
of which: AT1 capital instruments subject to transitional provisions	6,865.04	6,865.04
H. Items to be deducted from AT1	-	-
I. Transitional provisions – Impact on AT1 (+/-)	-3,432.52	-2,746.02
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**10,677**	**11,432**
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	176,042	195,407
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	396	375.00
P. Total Tier 2 (T2) (M - N +/- O)	**176,438**	**195,782**
Q. Total Own Funds (F + L + P)	**1,077,688**	**1,084,987**

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 82.64% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.99% and 16.37%, respectively, of Own Funds.

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 11.057%
- T1/risk-weighted assets 11.189%
- Total Own Funds / risk-weighted assets 13.380%

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 on 4 April 2017, which assigned the following minimum levels for the consolidated capital ratios:

- CET 1/ risk-weighted assets 6.000%
- T1/risk-weighted assets 7.600%
- Total Own Funds / risk-weighted assets 9.750%

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

Consolidated capital adequacy ratios

Categories/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	30.06.2017	**31.12.2016**	**30.06.2017**	**31.12.2016**
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	**13,542,140**	**12,468,280**	**7,228,868**	**7,216,913**
1. Standardised methodology	13,541,678	12,467,809	7,228,406	7,216,442
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	462	471	462	471
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**578,309**	**577,353**
B.2 Risk of credit valuation adjustment			**636**	**1,446**
B.3 Regulatory risk				
B.4 Market risks			**963**	**1,045**
1. STANDARDISED METHODOLOGY			963	1,045
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.5 Operational risk			**64,447**	**64,447**
1. BASIC APPROACH			64,447	64,447
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.6 Other items			0	0
B.7 Total precautionary requirements			**644,356**	**644,291**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**8,054,454**	**8,053,639**
C.2 Common Equity Tier 1 ratio / Risk-weighted assets (CET 1 capital ratio)			11.057%	10.899%
C.3 Core Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			11.189%	11.041%
C.4 Total Own Funds / Risk-weighted assets (Total capital ratio)			13.380%	13.472%

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).

TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA.

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 CBA, 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 article 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 Banco Desio 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 Banco Desio Group during the period,

there have been no transactions worth mentioning.

Transactions with related parties are generally entered into on an arm's length basis or, where an appropriate reference to the market is not feasible, at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case of Banco Desio Group's interest in carrying out the transactions.

In this context, there are no transactions outstanding at 30 June 2017 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 of current accounts and of the securities portfolio at the end of the first half of 2017.

[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)

I - Parent company

At the end of the first half of 2017, payables (to customers) versus the Parent Company **Brianza Unione di Luigi Gavazzi e Stefano Lado SApA** amounted to Euro 174.8 million, of which Euro 171.4 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

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

II - Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2017 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 32 positions existing at 30 June 2017 comes to some Euro 10.5 million and the related utilisations amount in total to some Euro 7.4 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 30 June 2017 amounted to Euro 147.7 million in amounts due to customers (including approximately Euro 111.7 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:

Balance at 30.06.2017 (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)
Lending transactions:	
Amount granted	10.5
Amount drawn down	7.4
Funding transactions:	
C/c and d/r amount (a)	36.0
Amount of securities portfolios (b)	111.7
Total (A+B)	147.7

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

SEGMENT REPORTING

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. and the SPV Desio OBG s.r.l. which became part of the banking group from 29 June 2017.

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) Rovere Societé de Gestione S.A., which is being disposed of.

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 total of the four columns described above is the amount reported in the consolidated half-yearly report of the Banco Desio Group.

Income statement	Commercial bank	Parabanking	Asset MGT and other	Consolidation adjustments	Total 30.06.2017
Net profit from financial and insurance activities [1]	225,421	8,525		(10,030)	223,916
Fixed costs [2]	(155,977)	(3,028)		3,392	(155,613)
Provisions and adjustments [3]	(38,857)	(463)			(39,320)
Profit (loss) from equity investments carried at equity					
Gains (losses) on disposal of investments	41				41
Profit (loss) from current operations before tax	**30,628**	**5,034**		**(6,638)**	**29,024**

[1] Including other operating charges/income
[2] Administrative costs, net adjustments to property, plant and equipment and intangible assets
[3] Net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Commercial bank	Parabanking	Asset MGT and other	Consolidation adjustments	Total 30.06.2017
Financial assets	2,781,135	15		(1,921)	2,779,229
Due from banks	619,176	2,471		(410,344)	211,303
Loans to customers	9,724,495	604,773		(551,872)	9,777,396
Due to banks	2,150,943	552,594		(960,050)	1,743,487
Due to customers	8,920,155	4,251		(2,030)	8,922,376
Debt securities in issue	1,173,717			(1,639)	1,172,078
Indirect funding, under administration and management	**13,942,279**			**(51,081)**	**13,891,198**

Income statement	Commercial bank	Parabanking	Asset MGT and other	Consolidation adjustments	Total 30.06.2016
Net profit from financial and insurance activities [1]	230,122	7,328	594	(9,736)	228,308
Fixed costs [2]	(160,547)	(2,636)	(223)	3,597	(159,809)
Provisions and adjustments [3]	(44,522)	(404)		(244)	(45,170)
Profit (loss) from equity investments carried at equity	5,200			(96)	5,104
Gains (losses) on disposal of investments	-				-
Profit (loss) from current operations before tax	**30,253**	**4,288**	**371**	**(6,479)**	**28,433**

[1] Including other operating charges/income
[2] Administrative costs, net adjustments to property, plant and equipment and intangible assets
[3] Net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Commercial bank	Parabanking	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	0	(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	0	(2,621)	8,729,591
Debt securities in issue	1,393,884				1,393,884
Indirect funding, under administration and management	**13,540,651**			**(66,522)**	**13,474,129**

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 OF 19 MAY 1999

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Stefano Lado, Chairman, 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 with respect to the Company and

- their effective application of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements during the first half of 2017.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements at 30 June 2017 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 condensed consolidated interim 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 interim report on operations includes a reliable analysis of significant events that took place during the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Desio, 3 August 2017

Chairman	Financial Reporting Manager
Stefano Lado	*Mauro Walter Colombo*

AUDITORS' REPORT

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REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed interim consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco Desio Group"), which comprise the consolidated balance sheet as of June 30, 2017 and the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the consolidated cash flow statement for the six-month period then ended and the related explanatory notes. The Directors are responsible for the preparation of this condensed interim consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
August 3, 2017

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