Consolidated interim report on operations at 30 September 2015

Contents

Directors and officers

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

Board of Directors

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

* *Members of the Executive Committee*

Board of Statutory Auditors

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

General Management

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

Financial Reporting Manager as per art. 154-bis CFA

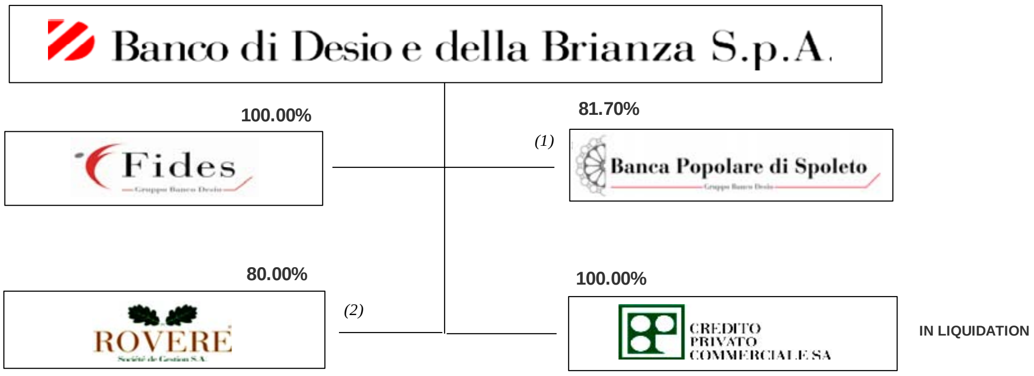
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The corporate structure of the Banco Desio Group at 30 September 2015, to which this *consolidated interim report* refers, is as follows:



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

(2) The disposal of the investment in Rovere S.d.G. S.A. is currently underway in accordance with the Parent Company's strategic direction.

Introduction

This consolidated interim report at 30 September 2015 of the Banco Desio Group 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").

This report has also been prepared for the purposes of determining Own Funds and statement of capital adequacy ratios;

The consolidated interim report is made up of the directors' interim report on operations, the accounting policies and the consolidated interim financial statements at 30 September 2015, including the balance sheet, income statement, income statement - quarter by quarter, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement, information on risks and hedging policies, own funds and capital adequacy ratios.

The figures and ratios shown in this consolidated interim report refer to the balance sheet of the consolidated interim financial statements and to the reclassified income statement (see the paragraph concerned), which is based on the financial statements.

Following the acquisition of control of Banca Popolare di Spoleto S.p.A., which took place with effect from 1 August 2014 (the date of appointment of the new corporate bodies after closure of the Extraordinary Administration procedure that took place on 31 July 2014), this company has been included in the scope of consolidation. As a result, the income statement at 30 September 2015 and the income statement at 30 September 2014 are not comparable.

In application of IFRS 5 concerning the reporting of non-current assets and disposal groups held for sale and liabilities associated with them, considering that the parent company is planning to sell its investment in Rovere S.d.G. S.A., we have reclassified the figures for the subsidiary at 30 September 2015 to the appropriate balance sheet items.

This consolidated interim report is subject to a limited audit on the quarterly financial statements used to calculate the quarterly profit for the determination of capital for supervisory purposes (Own Funds) by Deloitte & Touche S.p.A.

Interim report on operations

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.09.2015	31.12.2014	Change amount	Change %
Total assets	12,453,099	12,563,670	-110,571	-0.9%
Financial assets	1,907,593	1,905,058	2,535	0.1%
Due from banks	248,348	288,282	-39,934	-13.9%
Loans to customers	9,590,474	9,666,900	-76,426	-0.8%
of which: Loans to ordinary customers	*9,340,934*	*9,468,539*	*-127,605*	*-1.3%*
of which: Loans to institutional customers	*249,540*	*198,361*	*51,179*	*25.8%*
Property, plant and equipment	182,519	185,887	-3,368	-1.8%
Intangible assets	18,330	18,384	-54	-0.3%
Due to banks	738,758	1,017,467	-278,709	-27.4%
Due to customers	8,040,940	7,444,025	596,915	8.0%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	2,159,823	2,822,378	-662,555	-23.5%
Shareholders' equity (including Net profit/loss for the period) (1)	865,544	845,627	19,917	2.4%
Own funds	1,058,624	990,763	67,861	6.8%
Total indirect deposits	12,074,238	12,559,667	-485,429	-3.9%
of which: Indirect deposits from ordinary customers	*8,427,013*	*8,694,528*	*-267,515*	*-3.1%*
of which: Indirect deposits from institutional customers	*3,647,224*	*3,865,139*	*-217,915*	*-5.6%*

Income statement (2)

Amounts in thousands of Euro	30.09.2015	30.09.2014	Change amount	Change %
Operating income	354,184	302,449	51,735	17.1%
of which: Net interest income	*202,182*	*162,058*	*40,124*	*24.8%*
Operating costs	207,630	168,113	39,517	23.5%
Result of operations	146,553	134,336	12,217	9.1%
Net profit (loss) from operations after tax	28,563	28,376	187	0.7%
Non-recurring profit (loss) after tax	-3,739	16,692	-20,431	n.s.
Net profit for the period (1)	25,539	45,553	-20,014	-43.9%

(1) *pertaining to the Parent Company;*
(2) *from the reclassified income statement.*

Key figures and ratios

	30.09.2015	31.12.2014	Change Amount
Capital/Total assets	7.0%	6.7%	0.3%
Capital/Loans to customers	9.0%	8.7%	0.3%
Capital/Due to customers	10.8%	11.4%	-0.6%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	40.1%	30.0%	10.1%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	10.6%	10.3%	0.3%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	10.8%	10.5%	0.2%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.2%	12.3%	0.9%
Financial assets/Total assets	15.3%	15.2%	0.1%
Due from banks/Total assets	2.0%	2.3%	-0.3%
Loans to customers/Total assets	77.0%	76.9%	0.1%
Loans to customers/Direct customer deposits	94.0%	94.2%	-0.2%
Due to banks/Total assets	5.9%	8.1%	-2.2%
Due to customers/Total assets	64.6%	59.3%	5.3%
Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets	17.3%	22.5%	-5.2%
Direct customer deposits/Total assets	81.9%	81.7%	0.2%
	30.09.2015	**30.09.2014**	**Change Amount**
Cost/Income ratio	58.6%	55.6%	3.0%
Net interest income/Operating income	57.1%	53.6%	3.5%
Result of operations/Operating income	41.4%	44.4%	-3.0%
Profit (loss) from operations after tax/Capital [3] - *annualised* [4]	4.5%	2.6%	1.9%
Profit (loss) from operations after tax/Capital [3] (R.O.E.) - *annualised* [4]	4.1%	5.0%	-0.9%
Profit (loss) from operations before tax/Total assets (ROA) - *annualised* [4]	0.4%	0.3%	0.1%
	30.09.2015	**31.12.2014**	**Change Amount**
Doubtful loans/Loans to customers	4.5%	4.4%	0.1%
Impaired loans/Loans to customers	9.3%	8.8%	0.4%
% coverage of doubtful loans [5]	57.4%	58.5%	-1.2%
% coverage of doubtful loans, gross of cancellations [5]	64.0%	65.2%	-1.2%
% Total coverage of impaired loans [5]	46.8%	48.1%	-1.4%
% coverage of impaired loans, gross of cancellations [5]	52.1%	53.7%	-1.6%
% coverage of performing loans	0.69%	0.65%	0.04%

Structure and productivity ratios

	30.09.2015	31.12.2014	Change amount	Change %
Number of employees	2,405	2,474	-69	-2.8%
Number of branches	275	279	-4	-1.4%
Amounts in thousands of Euro				
Loans and advances to customers per employee [6]	3,931	3,907	24	0.6%
Direct deposits from customers per employee [6]	4,181	4,150	31	0.7%
	30.09.2015	**30.09.2014**	**Change amount**	**Change %**
Operating income per employee [6] - *annualised* [4]	194	175	19	10.9%
Result of operations per employee [6] - *annualised* [4]	80	76	4	5.3%

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

[4] *for the annualised figure at 30.09.2014 we have used the closing balance at 31.12.2014;*

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

[6] *at 30.09.2015 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 31.12.2014 based on the number of employees at the year end, as the straight average is not significant following the inclusion of Banca Popolare di Spoleto S.p.A. in the Group with effect from 1 August 2014.*

The macroeconomic scenario

International scenario

The turmoil that characterised the financial and currency markets this summer tended to overshadow the good news on industrialised countries that emerged during July and August. The Greek elections passed without too many shocks to European markets and, albeit with many difficulties, the will to continue on the path of adjustment was confirmed. The weakness of world trade is mainly due to the contraction/lower growth in trade of emerging countries, due to a further fall in commodity prices in the third quarter of the year. Among the BRICS countries (Brazil, Russia, India, China and South Africa), only China and India have maintained the growth path (although the figures are lower than expected), while other countries have posted contractions (South Africa, Argentina) or confirmed recessions (Russia, Brazil).

The substantial stability in the growth rate of world GDP in the first half of the year is a synthesis between the renewed vigour of the advanced economies (USA and Eurozone) and the deceleration of emerging countries. In the USA and Eurozone, the growth model shows the predominant role of household consumption and the relative fragility of capital investment; but while the contribution made by US exports is rather limited, it is one of more dynamic items in the Eurozone, even net of the negative contribution to GDP made by imports. European exports are bolstered by intra-area trading, which has become an effective shield against the slowdown in world trade, while for the United States, protection comes from its limited openness to international trade: in fact, with respect to the Eurozone, the proportion of exports to GDP is far lower (13% versus 44%).

After the relative stability shown in the second quarter of the year, commodities lost ground again in the summer months: for some commodities, such as energy and precious metals, the fundamentals have actually worsened in recent months due to excess supply in the face of weak growth in demand, in both emerging and developed countries. Overall, the entire sector has been driven down by the collapse of the Chinese stock market and fears of an excessive slowdown on the part of the Asian giant. With regard to the marked deterioration in oil fundamentals, the main causes are to be found in the output recorded in both OPEC and non-OPEC countries (mainly the United States), which was far higher than expected, and the thought that Iran could soon increase crude exports. In September, the price of oil stood at $ 48.4 per barrel (-51% y/y).

Inflation in industrialised nations remains low (as of September, the rate for the Eurozone was +0.1%), whereas in emerging nations there is a risk of rising prices as a result of a sharp depreciation of their local currencies; even though the internal conditions of their economies required support from economic policy, the governments of these countries (Russia, Brazil, Argentina and Indonesia) have in fact increased their policy rates on several occasions. Growth and inflation on the one hand and deflation on the other are becoming increasingly global phenomena: with fiscal policies frozen by the interventions needed to prevent the collapse of the world economy in 2008-09, monetary policies have to bear the entire burden of governing these phenomena. To get out of the liquidity trap, central banks adopted unconventional instruments (such as Europe's Quantitative Easing), but also the effects of the latter seem to be restricted because of the overall size of the phenomena.

United States

GDP recorded a +3.6% annualised quarterly increase in the second quarter of 2015, a significant increase compared with 0.6% in the previous quarter. The OECD's leading indicator signals that the prospects for the economy remain uncertain over the next six months. Household confidence and the ISM indices deteriorated between July and September. Industrial production alternated positive and negative monthly changes, remaining broadly stable between May and August. Unemployment fell again in August (5.1%, down from 5.3% in June), but the potential workforce unused or underused remains at pre-crisis levels. Inflation in August remained close to zero (+0.2%, with core inflation excluding food and energy at +1.8%). The recovery in employment and higher real disposable income are helping to boost consumer spending, while economic indicators are anticipating a further improvement in the housing market. Overall, the growth expected in the second half of 2015 (GDP of +2.8% per annum in the third quarter of the year) and in the first months of 2016 should be driven by private domestic demand, especially consumer spending and residential investment: this is one of the reasons to believe that the US recovery is relatively isolated from the repercussions of the international economy. Consumption and construction are supported by sound fundamentals: household budgets in order, the drop in petrol prices, the labour market in balance, a lower stock of unsold homes, and sharply rising rents are all factors that do in fact reinforce each other, creating a virtuous circle that should continue to push up household spending and the construction of new homes. The contribution of these two items should be more than enough to offset the weakness of the other components of demand, in particular fixed investment and exports, held back by adverse developments related to the emerging economies and raw materials such as exchange rate appreciation, the slowdown of China's economy and the drop in oil prices.

Japan

In the second quarter, the country recorded a fall in the economy of 0.3% (0.6% in the first quarter, subsequently adjusted to 1.1% by the final statistics) due to the decline in consumption (-0.7%) and capital investment (-0.9%). Construction, on the other hand, increased (+1.9%). Consumption has suffered from uncertainty about the trend in real wages, which remain the most important concern in surveys on household confidence, which did actually improve during the summer months. Retail sales in July and August recovered, suggesting an improvement in consumption in the second half of the year, also in the wake of low inflation (0.3%). Due to the sharp drop in the production prices of goods and imports, the expansive monetary policies adopted by the Central Bank have not yet managed to eradicate the danger of deflation: the approach monetary policy will probably remain expansionary in the second half of the year. Like other Asian countries, Japan has also reduced the weight of foreign trade: both exports (-4.4%) and imports (-2.6%) decreased, with a negative contribution to GDP of -0.3%.

In early September, the Central Bank proposed a new public support intervention, but given the figure expected at the end of 2015, it will only have a moderate impact on GDP, influenced by foreign demand and the weakness in capital investment. Overall, at the end of 2015, Japanese GDP is expected to turn in moderate growth (+0.6%), thanks to the contribution of domestic demand and private consumption.

Emerging Economies

In the second quarter of 2015, the *Russian* economy shrank (-2.0%, formerly -1.3%) due to the decrease in investment (-3.6%) and consumption (-2.4%). Foreign demand fell less than in the previous quarter, mainly due to the fact that the exchange rate recovered during the period: even if declining (-3.6%), imports recovered from the vertical drop suffered in the first quarter (-22.7%). Exports are also negative (-0.6%). In trend terms, GDP has collapsed by 4.5%. During the summer, the main economic indicators continued to decline as they did in the previous quarter, implying that the third quarter will be very negative: the worst of these indicators are for retail sales (-9%), industrial production (-4%) and capital investment (-7%). Confidence indicators also imply a weak outlook: this was particularly marked for households. In fact, the first quarter showed values close to the lows reached in 2009. The Purchasing Managers Index (PMI) remained below the discriminating threshold of the summer months. (The PMI is a composite index of manufacturing activity in a country which, expressed as a percentage, reflects the ability of the acquisition of goods and services, taking into account new orders, production, employment, deliveries and stocks in the manufacturing sector). Generally speaking, if it is below 50% it indicates a contraction in the sector, and if it is above 50%, it indicates an expansion. These trends are linked to the country's weaknesses, which have become well-established: the fall in real wages (-8.5% in the first half), which have basically absorbed the adjustment in the labour market and prevented a sharp rise in unemployment, has had negative consequences on consumption, exacerbated by the difficult credit conditions dictated by high interest rates and banks' aversion to risk. The trend in investment continues to be affected by financing conditions that are accompanied by increasingly weak demand, geopolitical uncertainty, the continuation of trade sanctions and low oil prices. The fall in demand has stimulated a major reduction in stocks (-38%). Monetary policy has slowed the expansion cycle because of persistent inflation: the recent resumption of the rouble's devaluation could lead to even greater prudence. Lastly, fiscal policy is being conditioned by the support being given to the economy by means of a much-needed correction to the budget deficit. Overall, Russia is expected to remain in this recession through to the end of 2015 and for the whole of 2016, and there is little to suggest that the recovery could be faster.

In August, *China* was the epicentre of a series of movements that rocked international markets: the causes are to be found in the devaluation of the yuan (carried out by the authorities for three days running) and in more and more frequent confirmation of weak economic growth with an impact on stock prices, which experienced a high level of volatility during the summer months. In fact, the main economic indicators are showing a constant weakening of the situation: lower growth in gross fixed investment in urban areas (less than 11%), a slowdown in industrial production (just over 6%) and in retail sales (just over 11%). So overall, economic growth in China is slowing down: GDP growth in the third quarter of 2015 was only +6.9%, the lowest since 2009. In the summer months, the problems that the Central Bank and the Authorities were trying to resolve with expansionary monetary policies caused a series of heavy falls on the Shanghai and Shenzhen stock exchanges, which had reached very worrying values in terms of multiples. After a series of ups and downs, with the indices in the end losing around 30%, the Central Bank decided to lower interest rates by 0.25% and the reserve ratio by 0.50%, while taking steps together with the Government to ban short selling by various operators. Inflation is still at very modest (2% in August) and leaves room for further action, although this approach helps to keep interest rates high in real terms. In order to counter the economic slowdown, the Authorities are implementing a series of policies designed to accelerate infrastructure investment, especially for transport, promoting on the one hand administrative action to facilitate the entry of new firms and public-private partnerships to implement these investments and, on the other, acting on credit by injecting liquidity into the market, drawing on international reserves. The economic data and the prospects of international trade suggest an outlook of very prudent growth in the Chinese economy at the end of the year and in 2016, with values substantially constant (+6%), given that the phase of investment-led growth has reached limits of production capacity that are unlikely to be beaten and the debt situation now requires a period of adjustment for both the quantity and quality of the debt.

In *India*, like China, the figures for the second quarter show a slowdown in growth (+7%, +7.5% in the first quarter), with a still very strong increase in consumption (+7.4%) and a slight increase in capital investment (+4.9%, +4.1% in March). The trend in international prices of raw materials generated a decline in interest rates and, above all, in the rate of inflation (3.7%), which has lost nearly 500 basis points in recent months. Investments continue to be bolstered by the public sector, whereas private capital investment is struggling; in this light, the Parliament has not yet approved the necessary measures to encourage investment. Given the growth in domestic demand, foreign trade is in trouble; the balance of net exports was negative (-0.2%) due to a higher decline in exports (-6.5%) than in imports (-5.4%). Imports of goods, excluding oil and gold, have actually increased slightly, but volumes are well down on what they were. Industrial production showed a good trend (+3.7% in July), as did the service sector (+9%). Monetary policy remains expansive, as confirmed by the recent 50 bps cut in the reference interest rate in September (to 6.75%, formerly 7.25%). The country still has issues concerning public finances, not so much tied to the amount of the overall deficit, but to the allocation of expenditure, the current component of which has increased to the detriment of capital investment. The international context of weaker demand and slow implementation of the reforms has led to an assessment of future growth at the end of 2015 that is less dynamic than was expected in the second quarter. The most important risk relates to the instability of the financial and currency markets during this phase of abandoning zero interest rates in the United States, a risk that could lead to a credit squeeze and higher inflation in the country.

Latin American countries continue to feature high inflation as a result of the devaluation of their currencies; at the same time, low raw material prices reduce revenues, resulting in a deterioration of public finances and restricting economic growth. In Brazil, the decline in consumption and capital investment has led to a higher than expected contraction of GDP in June (-1.9%, -0.7% in March). The economic indicators for the third quarter also confirm the recessionary trend. Industrial production has been slowly declining since the beginning of the year and, net of seasonal factors, is showing an average annual negative change (-5.8%). The growth in the Brazilian economy is also being affected by political factors; on the one hand, the expansion of the Petrobras scandal is affecting the confidence of national and foreign operators; and, on the other, the fragmentation of the government majority makes it harder to approve the budget presented at the end of September to break the deadlock in the country. Argentina and Venezuela are still in a situation of deep crisis; Argentina's presidential election has left the economic context more or less in a state of stagnation; in Venezuela, the government's desire to focus on reducing its foreign debt limits the resources allocated in the country, with a subsequent deterioration in the socio-economic conditions of the population. The dependence of the Mexican economy on the United States will allow the country to benefit from the US recovery; at the same time, overcoming the political uncertainty in Argentina will lay the foundation for reformist forces able to get the country on the move again. These trends will allow the entire area to counter the Brazilian recession which, in all probability, will continue in 2016.

Europe

The deterioration of the international scenario, which intensified during the summer, made the safety net of European countries, represented by intra-area trades, increasingly fragile. The further reduction in oil prices recorded in August increases the purchasing power of households and businesses, even though it entails a risk of deflation. In the second quarter, Eurozone GDP grew by +1.4%, down from the previous quarter (+2.1%). Within the Eurozone, Germany recorded an increase in GDP of +1.8% (+1.4% in March), while France was more or less flat in June, after growth in the first quarter (+2.7%). In August, industrial production in the Eurozone recorded a cyclical decline of -0.5% (+0.8% in July). The index of industrial production fell on a monthly basis even in Germany (-1.2%), whereas it increased in France (+1.6%). In July, new manufacturing orders were up in total by +2.5% (previously +7.5%), whereas in Germany it fell by 1.5% (+6.9% in June). Retail sales in August showed an increase (+2.1%), mainly due to the positive contributions of France (+2.4%, -0.4% in July) and Germany (+3.1%, +0.3% in July). The index of business confidence improved in September (-2.2, formerly -3.7) thanks to positive signs from Germany (-1.4, formerly -4.3) and France (-5.2, formerly -5.3). On the other hand, the index of consumer confidence, which has been affected by the refugee emergency and the Volkswagen scandal, fell (-7.1, formerly -6.9) mainly due to the decline in Germany (-2.9, formerly +0.7). In August, the labour market remained essentially unchanged; the unemployment rate remained stable at 11%. Inflation in the Eurozone is still remarkably low; in August, consumer prices showed a variance of next to zero (+0.1%, +0.9% net of core components).

In terms of monetary policy, at its September meeting, the ECB officially opened up to the idea of introducing new monetary stimulus with revised estimates of growth and inflation; it was only a verbal intervention at the time to try and steer market expectations. The introduction of a new monetary stimulus is subject to a review of core inflation expected to be around 1.4%-1.5% in 2017; however, the extension of such measures would not meet strong resistance within the Governing Council, as it would allow for gradual exit from the programme after September 2016 and would have the advantage of strengthening expectations of steady interest rates until 2018.

As mentioned previously, the prospects of falling interest rates, a weak euro and oil prices dropping even further, should permit a stabilisation of the macroeconomic scenario in the Eurozone until the end of 2015, which would also benefit Italy.

Italy

At the end of the second quarter of 2015, GDP grew by +0.3% over the previous quarter and +0.7% on an annual basis. Major contributions to total demand derived from domestic demand net of stocks (+0.2%), household consumption (+0.3%) and changes in inventories (+0.4%). On the other hand, negative contributions to GDP came equally (-0.2%) from public spending and net foreign demand. In August 2015, the seasonally adjusted index of industrial production fell slightly (-0.5% on a monthly basis), although in terms of trend, indices adjusted for calendar effects have increased in the segments of capital goods (+3.9%) and energy (+3.2%), while at the same time falling in intermediate goods (-1.8%) and consumer goods (-1.3%). In July, new manufacturing orders were up on a monthly basis (+10.4%), as already reported in June (+11.2% on May). Retail sales also maintained the growth trend (+2.6%). In September, the index of household and business confidence improved even more: (household -5.8, -9.2 in August; business -1.2, -2.4 in August). As regards the labour market, unemployment improved in August (11.9%, 12.0% in July) although youth unemployment got slightly worse (40.7%, 40.4% in July). The harmonised index of consumer prices rose in August (+0.4%, +0.3% in June), similar to core inflation (+0.9%, +0.7% in June).

As for the Eurozone, the prospects for Italy in 2015 are also for a recovery in competitiveness helped by low interest rates, the fall in oil prices and a weak euro, which should stimulate household spending and boost exports to other advanced economies.

Capital markets and the banking system in Italy

In September, European and US interest rates remained unchanged (0.05% and between 0% and 0.25%, respectively). However, the Federal Reserve has said that it is open to a possible rate hike, the first in nine years, but with no hurry.

In the first ten days of October, the 3-month Euribor was negative and at an all-time low (-0.05%); on the other hand, the 10-year IRS rate was at 1.02%, 18 basis points less than in June (1.20%).

On the bond market, 10-year benchmark rates fell in USA (2.16%, having been 2.36% in June) but rose slightly in the Eurozone; in Germany, the benchmark rate came to 0.68% (from 0.58% in June), while in Italy it was 1.84% (from 1.82% in

June). The spread between the average September yield on 10-year Italian and German government bonds fell again to 116 bps (from 124 in June).

In September, international share prices showed negative trends on a monthly basis (essentially due to the volatility generated by the Chinese crisis and Volkswagen emissions scandal), but were generally positive year-on-year.
The Dow Jones Euro Stoxx index fell by -7.5% m/m (+0.5% y/y), the Standard & Poor's 500 fell by -4.7% (-2.5% y/y) and the Nikkei 225 rose by +9.8% (+12.5% y/y). Like international share prices, the major European stock markets also showed a downward trend in September; the FTSE Mib and FTSE 100 fell by -5.7% (+3.1% y/y) and by -5.6% (-10.2% y/y) respectively, the French Cac40 fell by- 7.4% (+2.3% y/y) and the German Dax30 by -8% (+3.3% y/y).

The main international banking indices also replicated the performance of the main stock market indices: the Italian FTSE Banks declined by -6.5% m/m (+7.3% y/y), the Dow Jones Euro Stoxx Banks by -9.5% m/m (-10.1% y/y) and the S&P 500 Banks by -7.4% m/m (-1.4% y/y).

With reference to the banking system, despite the monthly recovery, the annual trend in resident customer deposits remained slightly negative in September as well (-1.4%, -1.6% at the end of 2014). The trend in deposits continues to be positive (+3.3%), whereas bonds are showing a strong contraction (-13.8%). An analysis of the different components shows a clear gap between the short-term and medium/long-term sources. Deposits from resident customers (net of central counterparties) rose in September by +3.3% y/y, whereas bonds continued their sharp decline, which started in 2014. Foreign deposits also maintained their upward trend, as seen in previous postings (+7.8% y/y, +12.6% in June).
The average remuneration of bank deposits was 1.25%, decreasing again on the June figure (1.35%). The interest rate on euro deposits of households and non-financial companies came to 0.55% (0.66% in June), while the rate on bonds came to 3.02% (formerly 3.05%) and 0.96% on repurchase agreements (formerly 1.08%).

In September, bank loans to households and businesses are basically back to the same level as the previous year (-0.2%), thanks to a long recovery that began in the second half of 2014 with continuous signs of improvement month on month. In detail, this trend can be seen in total loans to residents in Italy (+0.3% y/y, -0.3% in June), in loans to private sector residents in Italy (-0.2% y/y, formerly -0.8%), in loans to households and non-financial companies (-0.2% y/y, unchanged). In August, loans to households grew by 0.3% (y/y), while those to companies were still falling (-0.8%). Breaking down loans by duration, the medium/long-term component posted an annual increase (+1.3%, +0.3% in June), whereas the short-term one remains negative (-4.6% y/y).
Overall, lending during the third quarter of 2015 was influenced by the trend in capital investment and the weak economic cycle; in August, gross doubtful loans grew by 14.1% y/y, with a percentage of total loans of 10.4% (10.1% in June), the highest since 1996 (9.9%). The ratio of net doubtful loans/total net loans comes to 4.78% (4.62% in June).
The latest available figures from Cerved (March 2015) show that business failures are on the decline (-2.8% y/y). Distinguishing by legal form, partnerships have shown a more pronounced decrease in bankruptcies (-12.9%) compared with other types of companies. Geographically, there has been a sharp drop in defaults in the North West (-9%) and in the South (-4.2%); in the North East, on the other hand, bankruptcies have increased (+5.1%). At a regional level, the areas that have significantly reduced failures were Marche (-25.3%), Tuscany (-20.1%), Sicily and Piedmont (both -16.7%). On the other hand, Umbria (+29.7%), Lazio (+22.6%) and Abruzzo (+20.3%) posted the largest increases.
Interest rates on new loans have remained low; the rate on home purchase loans to families came to 2.66% (2.75% in June). In September, the share of the flow of fixed-rate loans was 64.9% (64.7% in June). The rate on new loans to non-financial companies fell to 2.05% (2.10% in June), the lowest level since May 2010. Overall, the weighted average interest rate on total loans to households and non-financial companies in September came to 3.34% (formerly 3.42%), a new all-time low recorded in 2015. In September, the spread between the average rates on loans and deposits amounted to 2.09%, a slight increase on the previous postings (2.07% in June), but still far from the pre-crisis value (3.29% at the end of 2007).

THE GROUP

The distribution network

The Group's distribution network al 30 September 2015 consists of 275 branches, of which 149 of Banco di Desio e della Brianza S.p.A. and 126 of Banca Popolare di Spoleto S.p.A.

As detailed in the paragraph below on *"Significant events"*, effective for legal purposes as of 1 April 2015, the Parent Company contributed to its subsidiary a business unit consisting of 32 branches, of which 11 branches are located in Tuscany and 21 are located in Lazio; at the same time as this contribution, the subsidiary sold its Milan branch to the Parent Company. This transaction is part of the rationalisation of the Group's distribution network aimed at strengthening the competitive positioning of Banco di Desio e della Brianza in the North and, for Central Italy, at concentrating the branches in Lazio and Tuscany in Banca Popolare di Spoleto.

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

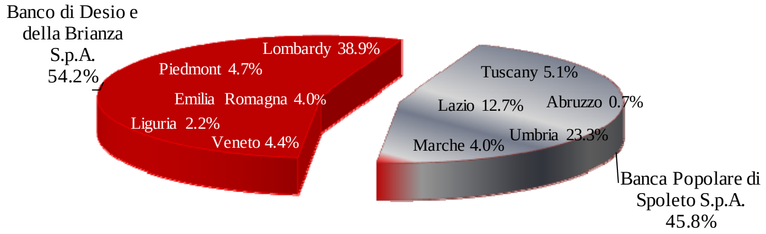
During the last year, measures were taken to restructure the Parent Company's distribution network with a view to strengthening its regional presence through structured and coordinated development as envisaged by the Corporate Affairs Department. This project consisted of the organisation of the distribution network into eight regional Areas, each of which is supervised by an Area Manager and for which it is envisaged that each Area will be assigned the following roles to support its Area Manager:

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

The above activities involved a review of branch sizes and having resources focus more on business development and customer support. The Group continued strengthening its online product offering, together with the distribution network, in a logic of multi-channel customer service alongside traditional banking services, moving towards a "virtual" bank.

As part of the rationalisation of the distribution network, in September, Banca Popolare di Spoleto S.p.A. closed four branches, in Viterbo, Civitavecchia, Rome and Terni. The following chart gives a breakdown of the overall distribution network by Group company with the percentage represented by the region at the end of the third quarter 2015.

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



Significant events

Approval of the Group Business Plan for the three-year period 2015-2017

On 10 February 2015 the Board of Directors of the Parent Company Banco di Desio e della Brianza approved the *Group Business Plan* for the three-year period 2015-2017.

Briefly, the strategic measures underlying the Plan concern:

- rationalisation of the distribution perimeter and gradual revision of the network model;
- convergence of network performances to internal best practice;
- constant review and updating of products on offer;
- revival of private banking;
- progressive development of digitisation and a multichannel approach;
- further streamlining of administrative costs;
- evolution of the model for the handling of impaired loans (doubtful and watchlist loans) with recourse to specialised companies (outsourcing) for the management of part of the stock;
- rationalisation and expansion of distribution agreements with product companies outside the Group, with a view to gradually increasing the economic component of the service margin.

These strategic measures are in-keeping with the territorial and organisational decisions taken, which envisage the Parent Company Banco di Desio e della Brianza S.p.A. overseeing the northern regions and the subsidiary Banca Popolare di Spoleto S.p.A. overseeing the regions of Central Italy, based on a commercial and distribution model that reflects the new size of the Group. A model that could become more integrated, thanks to the traditional service that is handled through the physical channel, to seize opportunities for local development, and the electronic channel, in line with the size that the web-oriented clientele is likely to assume.

In view of the above, the objectives of the business plan in terms of risk/return can be summarised as follows:

- development of the Group model, encouraging full integration of BDB and BPS at both an organisational and cultural level;
- compliance with capital and liquidity requirements with appropriate prudential margins;
- a progressive increase in profitability (ROE and RORAC);
- adequate remuneration for all shareholders.

Contribution by the Parent Company to its subsidiary Banca Popolare di Spoleto S.p.A. of a business unit consisting of branches in Lazio and Tuscany and purchase/sale of a bank branch

On 30 March 2015, an Extraordinary Shareholders' Meeting of BPS approved - as envisaged by the investment agreement executed and announced to the market on 1 April 2014 (the "Investment Agreement") - the project on which a motion had been passed on 18 December 2014 by the Board of Directors of the Parent Company and of BPS, which, in particular, effective as of 1 April 2015, led to the contribution (the "Contribution") by Banco Desio to BPS of a business unit consisting of 32 bank branches (the "Business Unit"), of which 11 branches are located in Tuscany and 21 are located in Lazio. The project allows BPS to strengthen its role in "Central Italy", particularly in Tuscany and in Lazio (14 and 35 branches respectively). This should result in various kinds of benefits, mainly due to efficiency and profitability targets, benefits in terms of cost synergies and simplification, taking into account the extent to which the existing networks of the Bank and of BPS are complementary. The Contribution took place under the terms of a deed executed on 31 March 2015, effective for legal purposes as of 1 April 2015. In this regard, notification has been published in the Official Gazette pursuant to art. 58 of the CBA (also available on the websites of the Parent Company and of BPS).

In line with this Group network rationalisation project, on 18 December 2014 the Boards of Directors of the Bank and of BPS also approved the sale by BPS to the Bank of the only BPS branch in Milan (the "Purchase/Sale of the Branch"). The Purchase/Sale of the Branch took place at the same time as the Contribution, under the terms of a deed executed on 31 March 2015, effective for legal purposes as of 1 April 2015. In this regard, notification has been published in the Official Gazette pursuant to art. 58 of the CBA (also available on the websites of the Parent Company and of BPS).

The Extraordinary Shareholders' Meeting of BPS also approved the issue of up to 11,104,626 "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") to be 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 which will entitle them to subscribe newly issued BPS ordinary shares at a ratio of 1 ordinary share for every 1 BPS Warrant exercised at a subscription price of Euro 1.812 per share. The BPS Warrants have been allocated free of charge to the shareholders of BPS, other than Banco Desio (as Banco Desio has announced that it has waived its share of the allocation) and have the following key features (i) maturity, 30 June 2017; (ii) exercise period, from 30 June 2015 to 30 June 2017; (iii) exercise ratio, 1 BPS Warrant = 1 new ordinary share; and (iv) subscription price for the conversion shares of Euro 1.812.

For the purposes of the Contribution, the same Extraordinary Shareholders' Meeting approved, effective as of 1 April 2015, the proposed increase in capital with exclusion of option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, reserved for Banco Desio for a total of Euro 90,628,000 (the "Capital Increase to Service the Contribution"), by issuing a total of 50,015,453 newly issued ordinary shares to be paid by means of the Contribution. In determining the terms and conditions of the Contribution, the Parent Company and BPS adopted appropriate procedures aimed at safeguarding the interests of the respective shareholders. With particular reference to BPS, appropriate procedures were adopted to protect the integrity of BPS's share capital, taking into account the exclusion of option rights. The valuation of the Business Unit pursuant to art. 2343-ter, paragraph 2, letter b) of the Civil Code, was performed by Professor Mario Massari as an independent expert with adequate and proven professionalism, whose report concluded that the estimated value of the Business Unit, at 30 September 2014, was Euro 90.6 million. This report was made available to the public on 9 March 2015 and can be found on BPS's website. It has thus been set at Euro 1.812 per share the issue price of the new shares to be paid for by means of the Contribution (the "Issue Price of the New Shares") and the subscription price of the Conversion Shares (the "Subscription Price of the Conversion Shares") for the increase in capital to service the BPS Warrants to be allocated free of charge to the holders of BPS ordinary shares, other than Banco Desio. The Issue Price of the New Shares was set taking into account the reasons given in Professor Mario Massari's fairness opinion, given the absence of significant changes in the scenario or new facts that could have significantly altered the valuation of BPS compared with that stated in the Investment Agreement. The Subscription Price of the New Shares and the Subscription Price of the Conversion Shares have been the subject of the fairness opinion issued by the auditors Deloitte & Touche S.p.A., pursuant to art. 158 of the "Consolidated Finance Act". On 30 March 2015, the Board of Directors of BPS took action as required by art. 2343 quater of the Civil Code, having ascertained, in particular, that, subsequent to the above reference date for the expert's valuation, no exceptional or significant facts had arisen that would have impacted the value of the contributed assets to the extent that the value would have been lower than that established for the purposes of the determination of the Capital Increase to Service the Contribution.

As a result of the Contribution, Banco Desio holds 128,240,177 BPS ordinary shares, equal to 81.71% of the share capital. Due to the effect of any future subscription for Conversion Shares by the owners of BPS ordinary shares, other than Banco Desio, as the result of their exercise of the Warrants allocated thereto, this holding could decrease to 76.31% by 30 June 2017. At 30 September 2015, 16,131 warrants have been converted and as many shares subscribed. The share capital has increased to a total of Euro 314,993,870.22 corresponding to no. 156,960,069 Shares. The share held by Banco Desio remained more or less unchanged at 81.70%.

The Purchase/Sale of the Branch took effect as of 1 April 2015 upon a cash payment by Banco Desio of the consideration of Euro 448,000. The value of the Branch was determined by Professor Mario Massari on the basis of its net asset value at 30 September 2014, applying the same criteria adopted for the valuation of the Business Unit.

For the accounting treatment of the two extraordinary transactions, reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements".

The Contribution and the Purchase/Sale of the Branch, jointly considered, are deemed to be "significant" intercompany transactions in accordance with legislation governing related party transactions. In accordance with this legislation, on 24 December 2014, BPS made available to the public an information document (available on BPS's website).

On 13 March 2015, BPS also made available to the public an additional information document relating to the aforementioned transactions, given that they were deemed to be “significant” pursuant to Consob's Issuers’ Regulations (available on BPS's website).

Decision by the Council of State on the Extraordinary Administration of Banca Popolare di Spoleto and subsequent decree of the Ministry of Economy and Finance

On 10 February 2015, the Boards of Directors of the Parent Company and of Banca Popolare di Spoleto (BPS) took note of the decision taken by the Council of State, filed on 9 February 2015, which cancelled the judgement of the Regional Administrative Tribunal that rejected the appeals of certain former Directors of BPS, ruling that the MEF had failed to critically examine the proposal of the Bank of Italy which led to the Extraordinary Administration of BPS at the beginning of 2013.

In light of our research into the possible legal implications and consequences of the Council of State's decision regarding the operations of Banca Popolare di Spoleto S.p.A., backed by authoritative legal opinions, it is reasonable to believe that this decision is unlikely to have any impact on the full validity and legitimacy of the Capital Increase Reserved for the Parent Bank and approved by BPS's Extraordinary Shareholders' Meeting of 16 June 2014 (the "Reserved Capital Increase").

Likewise, we believe that the decision of the Council of State does not have any effect on the full legitimacy of its corporate bodies appointed by the shareholders' meeting of BPS held on 30 July 2014, after the Reserved Capital Increase had been carried out.

In this regard, on 27 March 2015, BPS made available to the public, as requested by Consob on 24 March 2015, pursuant to art. 114, paragraph 5, of Legislative Decree 58/98, a Supplementary Document to the information given to the shareholders and the public at the time of the above Shareholders' Meeting (available on the websites of the Parent Company and of BPS).

On 20 April 2015, having taken note of this judgement of the Council of State, the MEF reiterated the dissolution of the administration and control bodies of the subsidiary and its submission to the extraordinary administration procedure with effect from 8 February 2013, integrating the investigation that the Council of State had deemed deficient because of the lack of independent evaluations on the part of the MEF with respect to the Bank of Italy's proposal.

As of 24 June 2015, at the request of certain former directors of BPS who had already filed an appeal against the MEF decree, the former General Manager and some members of the Issuer, and certain former directors of SCS, several appeals were notified to the Issuer, in its capacity as defendant, by them against the Bank of Italy and the MEF before the Lazio Regional Administrative Tribunal (TAR) to appeal against the decree of 20 April 2015, and before the Council of State for a compliance judgement with regard to that sentence. Note that the Code of Administrative Procedure provides that the discussion of the compliance judgements should occur at the first possible Council Meeting more than 30 days from the deadline for the parties to file suit. The State Council has set 1 December 2015 as the date for discussion at the Council Meeting.

Further legal investigations have not so far disclosed anything to support the idea that there may still be critical issues in relation to the legitimacy and stability of the ownership structure and corporate governance of BPS. The bank still decided to appear in court to protect its interests.

Financial Reporting Manager

Mauro Walter Colombo, the Financial Reporting Manager of the Parent Company, was appointed as the Financial Reporting Manager of BPS at the meeting on 6 August 2015. He also holds the new position (as an employee of the parent company, on secondment part-time to BPS) with effect from 13 October 2015, given that the 60-day period of silent consent from sending the communication to the Bank of Italy under the regulations on the outsourcing of "important operational functions" of banks has ended. This appointment took place as part of an organisational intervention that led to the outsourcing at the parent company of the administrative and accounting functions of BPS under the service agreement between the two banks from November 2014 with subsequent additions.

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

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

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

Although the process of transposing these directives into national law is not yet formally completed, based on information currently available and the existing directives, the Group has reported the estimated charges for the year for *ex ante* contributions to the resolution fund and the deposit protection fund of Euro 2.4 million and Euro 1.7 million, respectively. The accounting treatment of these contributions is based on the criteria explained in the "Accounting Policies", to which reference should be made.

Note that the actual amounts required may differ from those estimated, even quite significantly, depending on the different interpretations regarding the method of recognition and measurement.

Credito Privato Commerciale S.A. in liquidation

The liquidation of the Swiss subsidiary Credito Privato Commerciale S.A. (CPC) is proceeding faster than originally expected by the liquidators with whom we are constantly in touch. So providing various initiatives undertaken to facilitate the closure of the residual relationships and the resolution of any outstanding legal disputes are successful, final closure could take place much earlier than had been assumed.

Under these circumstances, already during the year 2014, the liquidators have again revised their estimates in the liquidation plan, foreseeing a reduction in the time needed for the proceedings, thereby reducing the future liabilities (for technical and administrative expenses) previously taken into consideration.

On 23 September 2015 the subsidiary's Board of Directors decided to keep the books in euro from 1 October 2015 and therefore to prepare the accounts in euro (indicating the equivalent amounts in Swiss Francs as required by local law).

On 1 October 2015, the Extraordinary Meeting of CPC resolved, with the approval of FINMA, the changes to the articles of association required to terminate the company's subjection to banking legislation and supervision by FINMA, once the procedure with the Commercial Register has been concluded. CPC will then continue its activity with the sole purpose of finalising the liquidation.

Operations to hedge the exchange rate risk in Swiss Francs

In January, as a result of the decision by the Swiss National Bank to abandon the Swiss franc's minimum exchange rate against the euro, which had been set at 1.20 since September 2011, the Bank entered into two flexible forward transactions fixing a total of 40 million Swiss francs against the euro with an 18-month maturity, to hedge the exchange risk on its investment in Credito Privato Commerciale SA in liquidation. In June, the Parent Company completed another deal for 10 million Swiss francs against the euro expiring in December 2015. The three transactions were closed on 1 October 2015, together with the change in functional currency for accounting in euro (as mentioned above) of the Swiss subsidiary Credito Privato Commerciale SA.

Rovere S.d.G. SA

On 28 April 2015, in line with its declared strategy, which over time led to the gradual exit from the controlling stakes in the product companies and from the investments in foreign companies, the Board of Directors of the Parent Company passed a resolution to commence the disposal of the investment in the Luxembourg subsidiary Rovere S.d.G. and to delegate management of the funds held by the Rovere Sicav to an Italian asset management company of proven ability in the management of funds and professional reliability, for the greater good of the customers of the Sicav, the funds of which are placed by Banco Desio and two other Italian banking partners. In this connection, Rovere S.d.G. and Rovere Sicav have carried out negotiations to merge the sub-funds of the Sicav with the funds managed by the SGR, both placed by Banco Desio, among others, (after completing the statutory and supervisory process stipulated by the respective regulations during the first few months of next year).

General inspection of Banco Desio by the Bank of Italy

A general inspection of Banco Desio began on 14 September 2015. The previous inspection (focused on the issues of "anti-money laundering" and "transparency") took place in the last quarter of last year.

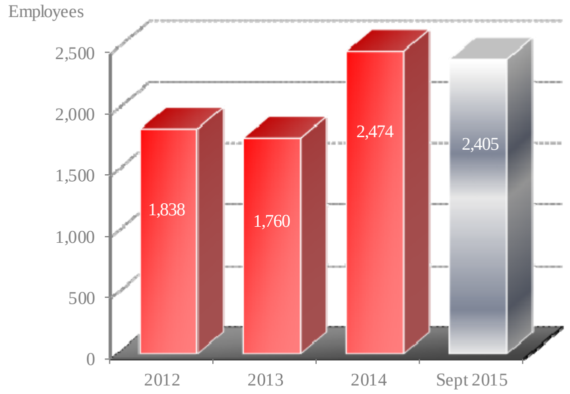
Human resources

At 30 September 2015, the Group had 2,405 employees, a decrease of 69 people (-2.8%) compared with the end of the previous year.

This is partly due to the number of Parent Company employees that took advantage of the second of the three "windows" for voluntary access to the Solidarity Fund under the redundancy plan adopted.

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

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



The following table provides a breakdown of employees by level at the end of the third quarter of the year, compared with 2014.

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

No. of Employees	**30.09.2015**	**%**	**31.12.2014**	**%**	**Change Amount**	**Change %**
Managers	35	1.5%	37	1.5%	-2	-5.4%
3rd and 4th level middle managers	489	20.3%	515	20.8%	-26	-5.0%
1st and 2nd level middle managers	617	25.6%	608	24.6%	9	1.5%
Other personnel	1,264	52.6%	1,314	53.1%	-50	-3.8%
Group employees	**2,405**	**100.0%**	**2,474**	**100.0%**	**-69**	**-2.8%**

Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 September 2015 reached Euro 22.3 billion, representing a decrease of some Euro 0.6 billion (-2.4%) with respect to the 2014 year end balance, mainly attributable to indirect deposits.

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

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

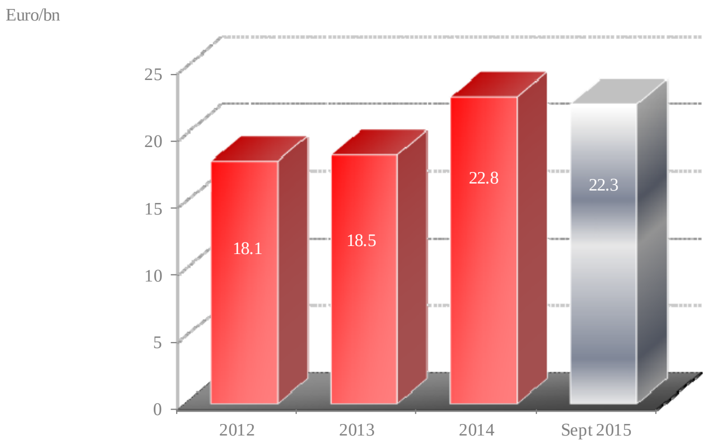
Amounts in thousands of Euro	30.09.2015	%	31.12.2014	%	Change Amount	Change %
Due to customers	8,040,940	36.1%	7,444,025	32.6%	596,915	8.0%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	2,159,823	9.7%	2,822,378	12.4%	-662,555	-23.5%
Direct deposits	**10,200,763**	**45.8%**	**10,266,403**	**45.0%**	**-65,640**	**-0.6%**
Ordinary customer deposits	8,427,013	37.8%	8,694,528	38.1%	-267,515	-3.1%
Institutional customer deposits	3,647,224	16.4%	3,865,139	16.9%	-217,915	-5.6%
Indirect deposits	**12,074,238**	**54.2%**	**12,559,667**	**55.0%**	**-485,429**	**-3.9%**
Total customer deposits	**22,275,001**	**100.0%**	**22,826,070**	**100.0%**	**-551,069**	**-2.4%**

Direct deposits

Direct deposits at the end of the third quarter amounted to Euro 10.2 billion, a decrease of Euro 0.1 billion due to the reduction in the balance of debt securities in issue and financial assets valued at fair value of Euro 0.7 billion (-23.5%) and to the rise in amounts due to customers of Euro 0.6 billion (+8%). The amounts due to customers represent 78.8% of direct deposits.

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

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



Indirect deposits

Overall, at 30 September 2015 indirect deposits recorded a fall of Euro 0.5 billion, equal to 3.9% of the balance at the end of the previous year, coming in at Euro 12.1 billion.

Ordinary customer deposits came to Euro 8.4 billion, a decrease of Euro 0.3 billion, equal to 3.1%, which was attributable to the performance of assets under management (-8.7%), partially offset by an increase in assets under administration (+2.5%).

On the other hand, institutional customer deposits decreased during the period by 5.6% (-Euro 0.2 billion).

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

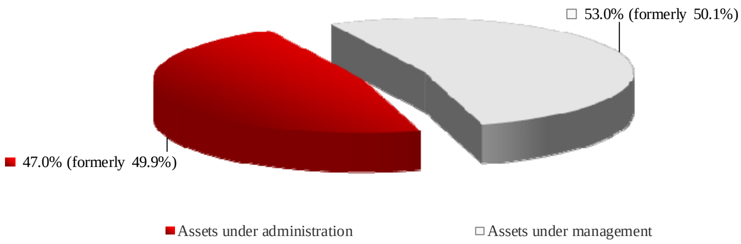
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	30.09.2015	%	31.12.2014	%	Change Amount	Change %
Assets under administration [(1)]	**3,964,417**	**32.8%**	**4,341,160**	**34.5%**	**-376,743**	**-8.7%**
Assets under management	**4,462,597**	**37.0%**	**4,353,368**	**34.7%**	**109,229**	**2.5%**
of which: Mutual funds and Sicavs	*1,519,677*	*12.6%*	*1,329,480*	*10.6%*	*190,197*	*14.3%*
Managed portfolios	*692,100*	*5.7%*	*553,136*	*4.4%*	*138,964*	*25.1%*
Bancassurance	*2,250,820*	*18.7%*	*2,470,752*	*19.7%*	*-219,932*	*-8.9%*
Ordinary customer deposits [(1)]	**8,427,013**	**69.8%**	**8,694,528**	**69.2%**	**-267,515**	**-3.1%**
Institutional customer deposits	**3,647,224**	**30.2%**	**3,865,139**	**30.8%**	**-217,915**	**-5.6%**
Indirect deposits [(1)]	**12,074,238**	**100.0%**	**12,559,667**	**100.0%**	**-485,429**	**-3.9%**

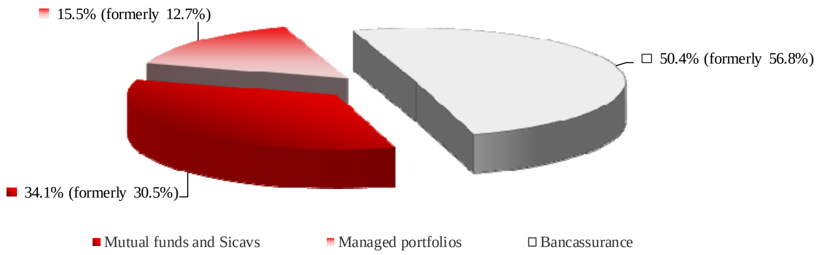
[(1)] to 30.09.2015 the volumes are less than for the bonds issued by the Parent Company and placed with customers of the subsidiary BPS (140.5 million euro) and vice versa (2.8 million euro).

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 September 2015. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how the "life" bancassurance component constitutes the largest share.

Graph no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.09.2015**



Graph no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.09.2015**



Loans to customers

The total value of loans to ordinary customers at the end of the third quarter of the year came in at Euro 9.3 billion, Euro 0.1 billion less than at the end of 2014 (-1.3%), while loans to institutional customers, which consist entirely of repurchase agreements, amount to Euro 0.3 billion on Euro 0.2 billion at the end of the previous year,

The Group's lending activity led to a total value of net loans to customers of Euro 9.6 billion at 30 September 2015, with a decline of Euro 0.1 billion (-0.8%).

The following graph shows the trend in customer loans in recent years.

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

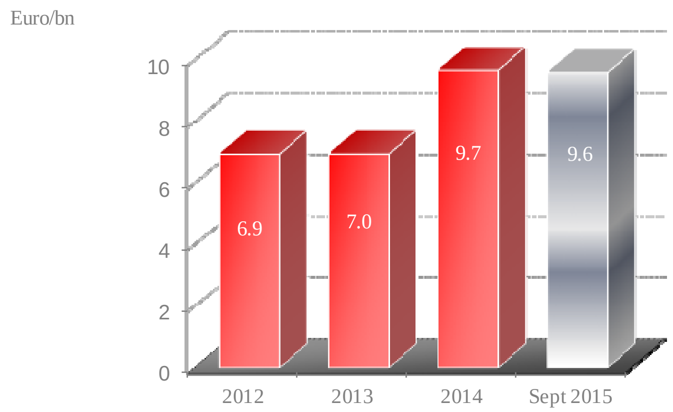


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	30.09.2015	%	31.12.2014	%	Change Amount	Change %
Current accounts	1,888,013	19.7%	1,892,751	19.5%	-4,738	-0.3%
Repurchase agreements	6,534	0.1%			6,534	
Mortgages and other long-term loans	6,220,036	64.8%	6,310,885	65.3%	-90,849	-1.4%
Other	1,226,351	12.8%	1,264,903	13.1%	-38,552	-3.0%
Loans to ordinary customers	**9,340,934**	**97.4%**	**9,468,539**	**97.9%**	**-127,605**	**-1.3%**
Repurchase agreements	249,540	2.6%	198,361	2.1%	51,179	25.8%
Loans to institutional customers	**249,540**	**2.6%**	**198,361**	**2.1%**	**51,179**	**25.8%**
Loans to customers	**9,590,474**	**100.0%**	**9,666,900**	**100.0%**	**-76,426**	**-0.8%**

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of the third quarter has increased, while continuing to reflect a high degree of risk diversification, as shown in the following table.

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

Number of customers [(1)]	30.09.2015	31.12.2014
First 10	1.4%	1.1%
First 20	2.3%	2.0%
First 30	3.1%	2.7%
First 50	4.2%	3.9%

(1) net of repurchase agreements with institutional counterparties of Euro 249.5 million at 30.09.2015 and of Euro 198.4 million at 31.12.2014.

During the year, the Group found itself operating in a market where the signs of recovery became stronger, but without the new economic cycle taking off completely; under these circumstances, the Bank continued with its systematic monitoring of exposures and with the application of precise policies for writing down non-performing exposures.

The Group's credit policies have incorporated new regulations relating to non-performing loans. On 9 January 2015, the European Commission approved the Implementing Technical Standards (ITS) for non-performing exposures and exposures subject to forbearance measures (to be used for harmonised supervisory financial reporting at European level) with the aim of reducing discretionary margins in the accounting and prudential definitions applied in different countries, and to facilitate the comparability of data at EU level. The Bank of Italy has endorsed the new EU regulations and has updated the definition of non-performing loan and the classification of non-performing exposures (doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures) with its 7th update to Circular no. 272.

Consequently the loans classified according to the previously applicable categories as non-performing loans have been reclassified to the new classes of risk by:

- eliminating "restructured loans" and reclassifying them as "unlikely to pay";
- reallocating the loans previously classified as "watchlist" to "unlikely to pay" if, based on the best available estimates, the Group believes that the conditions exist for a probable default at the reference date.

Non-performing loans at 31 December 2014 restated according to the new definitions of impaired loans are in line with the non-performing loans calculated according to the Bank of Italy's previous guidelines. The scope of non-performing loans at 31 December 2014 and 30 September 2015 according to the new definitions is therefore based on the best estimates available from time to time.

The total amount of net non-performing loans made up of doubtful loans, unlikely to pay, non-performing past due and/or overdrawn exposures, came to Euro 889.1 million at 30 September 2015, net of adjustments of Euro 780.7 million, an increase of Euro 35.2 million compared with 31 December 2014.

In particular, net doubtful loans totalled Euro 432.7 million, unlikely to pay, Euro 402.5 million and non-performing past due and/or overdrawn exposures Euro 53.9 million.

The following table summarises the gross and net indicators relating to credit risk, showing figures that are up on the end of the previous year. The indicators at 31 December 2014 have been restated in accordance with the new classification of non-performing exposures (doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures) to render them comparable with the ratios at 30 September 2015.

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

% of gross loans [1]	**30.09.2015**	**31.12.2014**
Gross non-performing loans to customers	16.01%	15.65%
of which:		
- gross doubtful loans	9.73%	9.78%
- unlikely to pay, gross	5.70%	5.40%
- non-performing past due and/or overdrawn exposures, gross	0.58%	0.47%

% of net loans	**30.09.2015**	**31.12.2014**
Net non-performing loans to customers	9.27%	8.83%
of which:		
- net doubtful loans	4.51%	4.41%
- unlikely to pay, net	4.20%	3.96%
- non-performing past due and/or overdrawn exposures, net	0.56%	0.46%

(1) considering the gross value and the write-downs of non-performing loans of BPS without taking into account the changes needed to represent the acquisition value.

The main indicators on the coverage of non-performing loans are reported below, also considering, for doubtful loans, the amount of direct write-downs made over the years, together with those relating to performing loans, which show levels of coverage that are much the same as in the comparative period.

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

% coverage of impaired and performing loans [1]	**30.09.2015**	**31.12.2014**
% coverage of doubtful loans	57.36%	58.52%
% coverage of doubtful loans, gross of cancellations	64.01%	65.22%
% Total coverage of impaired loans	46.75%	48.11%
% coverage of impaired loans, gross of cancellations	52.13%	53.69%
% coverage of performing loans	0.69%	0.65%

(1) considering the gross value and the write-downs of non-performing loans of BPS without taking into account the changes needed to represent the acquisition value.

As regards loans classified as doubtful, it should be noted that the trend in the coverage ratio is affected by two sales of non-performing loans by Banca Popolare di Spoleto, of 62.3 million euro and 39.6 million euro respectively, with an average coverage of 95.7% (figures as of 31.12.2014).

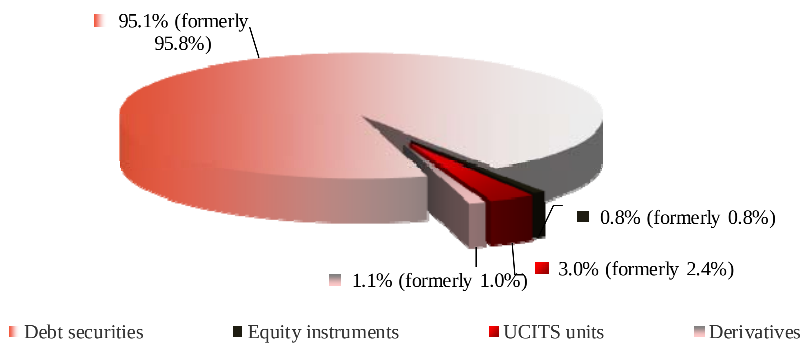
The securities portfolio and interbank position

Securities portfolio

At 30 September 2015, the Group's total financial assets amounted to Euro 1.9 billion, in line with the end of 2014 (+0.1%).

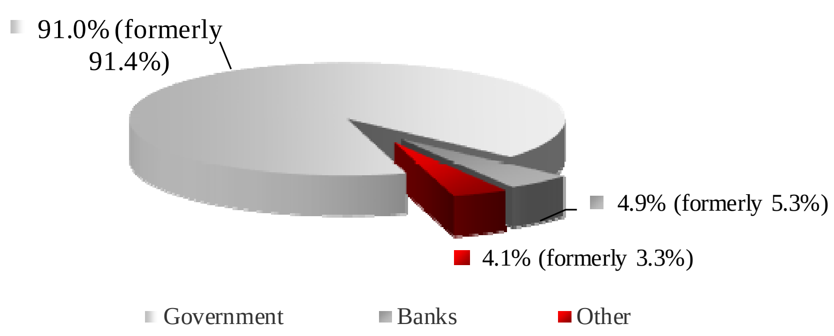
The breakdown of the portfolio by type of security is shown in the following graph, which shows that almost all (95.1%) of the total investment relates to debt securities.

Graph no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.09.2015 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the third quarter, 91% relates to government securities, 4.9% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

Graph no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.09.2015 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 30.09.2015 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		**Italy**	**30.09.2015**
Financial assets available for trading	Nominal value	1,860	1,860
	Book value	1,179	1,179
Financial assets available for sale	Nominal value	1,698,000	1,698,000
	Book value	1,734,104	1,734,104
Sovereign debt	**Nominal value**	**1,699,860**	**1,699,860**
	Book value	**1,735,283**	**1,735,283**

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

Amounts in thousands of Euro		**Italy**	**30.09.2015**	
			Nominal value	**Book value**
Financial assets available for trading	up to 1 year	0	0	0
	1 to 3 years	0	0	0
	3 to 5 years	1	1	1
	over 5 years	1,859	1,859	1,178
	Total	1,860	1,860	1,179
Financial assets available for sale	up to 1 year	181,000	181,000	180,935
	1 to 3 years	618,000	618,000	631,545
	3 to 5 years	312,500	312,500	318,741
	over 5 years	586,500	586,500	602,884
	Total	1,698,000	1,698,000	1,734,104
Sovereign debt	**up to 1 year**	**181,000**	**181,000**	**180,935**
	1 to 3 years	**618,000**	**618,000**	**631,545**
	3 to 5 years	**312,501**	**312,501**	**318,742**
	over 5 years	**588,359**	**588,359**	**604,062**
	Total	**1,699,860**	**1,699,860**	**1,735,283**

Net interbank position

The Group's net interbank position at 30 September 2015 is negative for Euro 0.5 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.7 billion.

Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 September 2015, including net profit for the period, amounts to Euro 865.5 million, compared with Euro 845.6 million at the end of 2014.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 September 2015, 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 30.09.2015**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: Net profit (loss) for the period***
Parent Company balances at 30 September 2015	**838,398**	***24,856***
Effect of consolidation of subsidiaries	24,411	*537*
Effect of valuation of associates at net equity	2,806	*1,573*
Dividends collected during the period	-	*-1,356*
Other changes	-71	-71
Consolidated balances at 30 September 2015	**865,544**	**25,539**

Shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, with an expected pay out of not more than 40%, amounts at 30 September 2105 to Euro 1,058.6 million (CET1 + ATI of Euro 862.6 million + T2 of Euro 196 million), compared with Euro 990.8 million at the end of the previous year.

At 30 September 2015, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 10.6% (10.3% at 31 December 2014). The Tier 1 ratio (T1/Risk-weighted assets) was 10.8% (10.5% at 31 December 2014), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.2% (12.3% at 31 December 2014).

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

The new prudential regulations have imposed a capital reserve that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process.

Reclassified income statement

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the Consolidated interim financial statements, which forms the basis of the following comments. As stated in the "Introduction", following the acquisition of control of Banca Popolare di Spoleto S.p.A.,which took place with effect from 1 August 2014, the company was included in the scope of consolidation; as a result, comparing the income statement figures at 30 September 2015 with those at 30 September 2014 is not comparing like with like.

The presentation criteria for this table are as follows:

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

As shown in the following table, which presents the reclassified income statement with prior period comparatives, the third quarter of 2015 closed with a net profit attributable to the Parent Company of Euro 25.5 million, compared with a net profit of Euro 45.6 million reported for the third quarter of the previous year: this included a net contribution of the Finance business associated with the sale by the Parent Company of all the financial instruments in the HTM portfolio of 8.4 million euro, as well as 9.6 million euro of the gain from the acquisition of assets and the assumption of liabilities of Banca Popolare di Spoleto S.p.A. at their respective fair values (acquisition method).

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

Captions				Change	
Amounts in thousands of Euro		**30.09.2015**	**30.09.2014**	**Amount**	**%**
10+20	Net interest income	202,182	162,058	40,124	24.8%
70	Dividends and similar income	300	133	167	125.6%
	Profit from associates	1,573	740	833	112.6%
40+50	Net commission income	118,491	88,994	29,497	33.1%
80+90+100+ 110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	19,838	39,062	-19,224	-49.2%
220	Other operating income/expense	11,800	11,462	337	2.9%
	Operating income	**354,184**	**302,449**	**51,734**	**17.1%**
180 a	Payroll costs	-135,368	-110,143	-25,225	22.9%
180 b	Other administrative costs	-62,771	-50,690	-12,081	23.8%
200+210	Net adjustments to property, plant and equipment and intangible assets	-9,492	-7,281	-2,212	30.4%
	Operating costs	**-207,630**	**-168,113**	**-39,517**	**23.5%**
	Result of operations	**146,553**	**134,336**	**12,217**	**9.1%**
	Gains (Losses) on disposal or repurchase of loans	-2,064	-448	-1,616	360.7%
130 a	Net impairment adjustments to loans and advances	-105,971	-89,812	-16,158	18.0%
130 b	Net impairment adjustments to financial assets available for sale	-325	17	-342	n.s.
130 d	Net impairment adjustments to other financial assets	152	825	-673	-81.6%
190	Net provisions for risks and charges	-1,757	1,001	-2,759	n.s.
	Profit (loss) from operations before tax	**36,588**	**45,919**	**-9,331**	**-20.3%**
290	Income taxes on current operations	-8,025	-17,542	9,518	-54.3%
	Profit (loss) from operations after tax	**28,563**	**28,376**	**187**	**0.7%**
240+270	Profit (loss) from investments and disposal of investments	0	9,645	-9,645	-100.0%
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity	-5,226	10,486	-15,712	n.s.
	Non-recurring profit (loss) before tax	**-5,226**	**20,131**	**-25,357**	**n.s.**
	Income taxes from non-recurring items	1,487	-3,440	4,926	n.s.
	Non-recurring profit (loss) after tax	**-3,739**	**16,692**	**-20,431**	**n.s.**
320	**Net profit (loss) for the period**	**24,824**	**45,068**	**-20,244**	**-44.9%**
330	Minority interests	715	485	230	47.4%
340	**Parent Company net profit (loss)**	**25,539**	**45,553**	**-20,014**	**-43.9%**

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

Table no. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.09.2015**

Captions		As per financial statements	Reclassifications							Reclassified income statement
Amounts in thousands of Euro		30.09.2015	Gains on disposal of financial assets held to maturity	Tax/expense recoveries	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	30.09.2015
10+20	Net interest income	202,182								202,182
70	Dividends and similar income	300								300
	Profit from associates				1,573					1,573
40+50	Net commission income	118,491								118,491
80+90+100+110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	17,774	0				2,064			19,838
220	Other operating income/expense	35,009		-29,495		2,230		4,055		11,800
	Operating income	**373,756**	**0**	**-29,495**	**1,573**	**2,230**	**2,064**	**4,055**	**0**	**354,184**
180 a	Payroll costs	-135,547						179		-135,368
180 b	Other administrative costs	-93,257		29,495				992		-62,771
200+210	Net adjustments to property, plant and equipment and intangible assets	-7,262				-2,230				-9,492
	Operating costs	**-236,066**	**0**	**29,495**	**0**	**-2,230**	**0**	**1,171**	**0**	**-207,630**
	Result of operations	**137,690**	**0**	**0**	**1,573**	**0**	**2,064**	**5,226**	**0**	**146,553**
	Gains (Losses) on disposal or repurchase of loans						-2,064			-2,064
130 a	Net impairment adjustments to loans and advances	-105,040						-931		-105,971
130 b	Net impairment adjustments to financial assets available for sale	-325								-325
130 d	Net impairment adjustments to other financial assets	152								152
190	Net provisions for risks and charges	-2,688						931		-1,757
	Profit (loss) from operations before tax	**29,789**	**0**	**0**	**1,573**	**0**	**0**	**5,226**	**0**	**36,588**
290	Income taxes on current operations	-6,538							-1,487	-8,025
	Profit (loss) from operations after tax	**23,251**	**0**	**0**	**1,573**	**0**	**0**	**5,226**	**-1,487**	**28,563**
240+270	Profit (loss) from investments and disposal of investments	1,573			-1,573					0
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity		0					-5,226		-5,226
	Non-recurring profit (loss) before tax	**1,573**	**0**	**0**	**-1,573**	**0**	**0**	**-5,226**	**0**	**-5,226**
	Income taxes from non-recurring items								1,487	1,487
	Non-recurring profit (loss) after tax	**1,573**	**0**	**0**	**-1,573**	**0**	**0**	**-5,226**	**1,487**	**-3,739**
320	**Net profit (loss) for the period**	**24,824**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**24,824**
330	Minority interests	715								715
340	**Parent Company net profit (loss)**	**25,539**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25,539**

Table no. 13 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.09.2014**

Captions		As per financial statements	Reclassifications							Reclassified income statement
Amounts in thousands of Euro		**30.09.2014**	Gains on disposal of financial assets held to maturity	Tax/expense recoveries	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**30.09.2014**
10+20	Net interest income	162,058							0	162,058
70	Dividends and similar income	133								133
	Profit from associates				740					740
40+50	Net commission income	88,994								88,994
80+90+100+ 110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	51,042	-12,428				448			39,062
220	Other operating income/expense	30,874		-21,056		1,644				11,462
	Operating income	**333,101**	**-12,428**	**-21,056**	**740**	**1,644**	**448**	**0**	**0**	**302,449**
180 a	Payroll costs	-110,339						196		-110,143
180 b	Other administrative costs	-73,491		21,056				1,746		-50,690
200+210	Net adjustments to property, plant and equipment and intangible assets	-5,637				-1,644				-7,281
	Operating costs	**-189,467**	**0**	**21,056**	**0**	**-1,644**	**0**	**1,942**	**0**	**-168,113**
	Result of operations	**143,634**	**-12,428**	**0**	**740**	**0**	**448**	**1,942**	**0**	**134,336**
	Gains (Losses) on disposal or repurchase of loans						-448			-448
130 a	Net impairment adjustments to loans and advances	-89,894						82		-89,812
130 b	Net impairment adjustments to financial assets available for sale	17								17
130 d	Net impairment adjustments to other financial assets	825								825
190	Net provisions for risks and charges	1,083						-82		1,001
	Profit (loss) from operations before tax	**55,665**	**-12,428**	**0**	**740**	**0**	**0**	**1,942**	**0**	**45,919**
290	Income taxes on current operations	-20,982							3,440	-17,542
	Profit (loss) from operations after tax	**34,683**	**-12,428**	**0**	**740**	**0**	**0**	**1,942**	**3,440**	**28,376**
240+270	Profit (loss) from investments and disposal of investments	10,385			-740					9,645
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity		12,428					-1,942		10,486
	Non-recurring profit (loss) before tax	**10,385**	**12,428**	**0**	**-740**	**0**	**0**	**-1,942**	**0**	**20,131**
	Income taxes from non-recurring items								-3,440	-3,440
	Non-recurring profit (loss) after tax	**10,385**	**12,428**	**0**	**-740**	**0**	**0**	**-1,942**	**-3,440**	**16,692**
320	**Net profit (loss) for the period**	**45,068**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**45,068**
330	Minority interests	485								485
340	**Parent Company net profit (loss)**	**45,553**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**45,553**

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

Operating income

Core revenues increased by 17.1% on the third quarter of the prior year, rising to Euro 354.2 million, being an increase of some Euro 51.7 million. The increase is mainly attributable to *net interest income* which, at Euro 202.2 million, has increased by some Euro 40.1 million, or 24.8%.

There have also been increases in *net commission income*, which, at Euro 118.5 million, has increased by Euro 29.5 million (+33.1%), in *profit from associates* of some Euro 0.8 million, mainly relating to a higher share of profit earned by Istifid S.p.A., in *dividends and similar income* of Euro 0.2 million and in *other operating income/expense* of Euro 0.3 million. Conversely, the aggregate of *net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss* posts a decrease of Euro 19.2 million (-49.2%).

It should be noted that the balance of *Other operating income/expense* is net of the reclassification of gross contributions to the new resolution fund (*"Contribution SRM - Single Resolution Mechanism"*) worth about 2.4 million euro (1.9 million euro for the Parent Company and 0.5 million euro for Banca Popolare di Spoleto) and to the new fund for the protection of guaranteed deposits (*"DGS contributions - Deposit Guarantee Scheme"*) worth about 1.7 million euro (1 million euro for the Parent Company and 0.7 million euro for Banca Popolare di Spoleto) under *Non-recurring profit (loss).*

These contributions relate to the new rules applied from 1 January 2015 to all banks of the European Union according to Directives 2014/59/EU and 2014/49/EU. In particular, Directive 2014/59/EU provides that to activate the resolution mechanisms, funds are to be created through *ex ante* contributions, the target level of which is equal to 1% of the total amount of protected deposits of the banking system to be achieved by 31 December 2024. Directive 2014/49/EU also regulates the new rules on the protection of guaranteed deposits applied from 2015 to all banks in the European Union. It provides that to activate the mechanisms to protect depositors, funds are to be created by ex-ante contributions, the target level of which is 0.8% of the total amount of guaranteed deposits of the banking system, to be achieved by 31 December 2024.

Both contributions, which have been estimated (based on information available to date, pending official communication of the contributions to be paid) for a total gross value of about 4 million euro (2.9 million euro net), have been reclassified from Operating income/expense to Extraordinary provisions for risks and charges, other provisions and gains/losses on disposal of financial assets held to maturity.

Operating costs

Operating costs, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets amount to Euro 207.6 million and have increased, with respect to the comparative period, by Euro 39.5 million (+23.5%).

Payroll costs increased by 25.2 million (+22.9%). while *other administrative costs*, net of advisory costs relating to the acquisition of Banca Popolare di Spoleto S.p.A. of Euro 1 million (Euro 1.7 million in the third quarter of the previous year), which have been reclassified to non-recurring profit (loss), have increased by Euro 12.1 million (+23.8%). *Net adjustments to property, plant and equipment and intangible assets* have also increased, in this case by Euro 2.2 million (+30.4%).

Result of operations

The result of operations at the end of the third quarter therefore comes to Euro 146.6 million, an increase of 9.1% on the same period last year, i.e. about Euro 12.2 million.

Net profit (loss) from operations after tax

Net impairment adjustments to loans and advances of Euro 105.9 million, which are Euro 89.8 million higher than in the comparative period, *losses on disposal or repurchase of loans* of Euro 2.1 million, *net provisions for risks and charges* of Euro 1.8 million, *taxes on income from continuing operations* of Euro 8 million (considering the positive impact of Euro 2.1 million mainly due for Euro 1.3 million to the reversal of deferred tax liabilities and the recognition of deferred tax assets on goodwill allocated for statutory purposes to Banca Popolare di Spoleto and Euro 0.6 million of net deferred tax assets recorded for IRAP purposes on provisions for personnel expenses allocated in previous years), lead to a *net profit from operations after tax* of Euro 28.6 million, compared with a net profit of Euro 28.4 million in the same period of the prior year (+0.7%).

Non-recurring profit (loss) after tax

At the end of the third quarter there was a *Non-recurring operating loss after tax* of 3.7 million euro, mainly because of the consulting fees related to the proposed acquisition of control of Banca Popolare di Spoleto of 0.7 million euro and the "*SRM - Single Resolution Mechanism"* and "*DGS- Deposit Guarantee Scheme"* contributions for a total of Euro 2.9 million, net of the related tax effects.

The balance in the comparative period shows a profit of about 16.7 million euro, mainly consisting of the net contribution of 8.4 million euro resulting from the sale by the Parent Company of all financial instruments included in the HTM - Held To Maturity portfolio, consulting fees related to the proposed acquisition of control of Banca Popolare di Spoleto of 1.2 million euro and the revenues of 9.6 million euro recognised as a result of the assets acquired and liabilities assumed of the subsidiary at their fair value (acquisition method).

Parent Company net profit/(loss)

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests, leads to the *Parent Company net profit for the period* ended 30 September 2015 of Euro 25.5 million, which compares with a net result for the comparative period of Euro 45.6 million.

Significant subsequent events

Fides S.p.A.

On 8 October 2015 we presented the application for registration of the subsidiary Fides S.p.A., a financial company already registered in the Special List under former Article 107 of the Consolidated Banking Act, at the Single Register as per art. 106 of the Consolidated Banking Act. To this end, among other things and in addition to the programme of activities and the report on the organisational structure drawn up in accordance with the Supervisory Provisions, we have also added the articles of association (in particular, the corporate objects) with resolution of the Extraordinary General Meeting of 17 September 2015. With the previous resolution of the Extraordinary Meeting of 14 April 2015 we likewise took steps to increase the share capital to a total of Euro 25 million (through an increase in capital for payment of approximately Euro 10 million fully paid by the Parent Company as the sole shareholder and a bonus increase in capital of 12.7 million made by allocating a previous capital contribution and other capital reserves to share capital).

Preliminary investigation of the Tax Authorities at Banca Popolare di Spoleto S.p.A.

On 12 October, the Tax Authorities began an external investigation concerning tax years 2012 and 2013 at the subsidiary Banca Popolare di Spoleto S.p.A. on direct and indirect taxes in order to complete the checks required by D.L. no.185/2008, converted into Law 2/2009 (so-called "Tutoring of large tax payers").

Registration document of the subsidiary BPS

On 22 October 2015, BPS submitted to Consob the registration document required under applicable law for: i) the re-admission to listing of the shares outstanding at the time of the Extraordinary Administration and of those subsequently issued by virtue of the extraordinary transactions mentioned above, and of the warrants; ii) the issue of own bonds (of considerable importance to the bank to achieve its targets for rebalancing its structural funding).

On the same date, BPS also filed with Consob its Base Prospectus so that it can start issuing bonds again.

It should also be noted that on 5 November 2015, Consob sent a number of requests to integrate the documentation submitted, which the subsidiary is currently looking into.

Other information

On 2 July 2015, the Parent Company announced, following its annual rating review, that Fitch Ratings had confirmed its previous ratings.

Confirmation of the ratings reflects the adequate capital base, the correct profile of funding and the level of profitability that is more solid than most competitors. The Agency also judged positively the prudent lending policy and the well spread loan portfolio, the geographic diversification of which has been further enhanced with the acquisition of Banca Popolare di Spoleto. The deterioration in asset quality, even after the acquisition of Banca Popolare di Spoleto, remains below average for the system; coverage levels have improved steadily since 2013 and remain among the highest for its main competitors.

The updated ratings are the following:

- Long term IDR confirmed at "BBB" with a Stable Outlook
- Short term IDR confirmed at “F3”
- Viability Rating confirmed at "bbb”
- Support Rating confirmed at “5”
- Support Rating Floor confirmed at “No Floor”

Outlook for the rest of the year

Operating performance at the end of the third quarter of the current year confirms the estimates for 2015 outlined in the Group's Business Plan for the period 2015-2017.

With reference to the principal risks and uncertainties, please note that this Consolidated Interim Report at 30 September 2015 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

Desio, 10 November 2015

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

Accounting policies

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

This consolidated interim report of the Banco Desio Group has been prepared, as regards the criteria for recognition and measurement, by applying the IAS/IFRS issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in force as of 30 September 2015. In terms of financial disclosure, as consolidated interim report has been prepared in accordance with art. 154-ter of Legislative Decree no. 58/98 and for the purposes of determining capital for supervisory purposes (now known as "Own Funds"), it does not include the explanatory notes that would be required to give the Group's financial position and results of operations for the period in accordance with IAS 34.

It should be noted that as of 1 January 2015, the first year after the date of publication, IFRIC 21 - *Levies*, which clarifies the time of recognition of a liability related to taxes imposed by a government agency (other than income taxes, fines and other penalties for violation of laws), has been applied for the first time by the Group. The interpretation deals with the accounting of levies falling within the scope of IAS 37 - *Provisions, contingent liabilities and contingent assets*, and those levies whose timing and amount are uncertain and do not meet IAS 37.

Basis of preparation

The consolidated interim report consists of the balance sheet, income statement, income statement quarter by quarter, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement, information on risks and hedging policies, statement of own funds and statement of capital adequacy ratios; it is also accompanied by the Directors' interim report on operations.

For the preparation of the consolidated interim report, reference was made to the Bank of Italy Circular 262 of 22 December 2005 as subsequently updated on 22 December 2014. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The consolidated interim 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 as, even with the voluntary liquidation of a foreign subsidiary (which did not result in losing control over it), the going-concern assumption is still undoubtedly valid for the Banco Desio Group as a whole. This means that in preparing consolidated financial information Group accounting principles also have to be applied to the company in voluntary liquidation (in line with the going-concern assumption).

The financial statements used for the preparation of the consolidated interim report are those prepared by the subsidiaries as of the same date, 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 interim report on operations are expressed in thousands of Euro – unless otherwise indicated.

Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship (1)	Nature of holding: Parent company	% held
Fides S.p.A.	Rome	1	Banco Desio	100.000
Rovere S.A. (2)	Luxembourg	1	Banco Desio	80.000
Credito Privato Commerciale S.A. in liquidation	Lugano	1	Banco Desio	100.000
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.700
Spoleto Mortgages S.r.l. (3)	Conegliano	4	Banca Popolare di Spoleto	10.000

Key:

(1) Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

4 = other forms of control

(2) Classified under "150. Non-current assets and disposal groups held for sale" and "90. Liabilities associated with assets held for sale"

(3) Limited to the separate assets of the Spoleto Mortgages S.r.l. for which the requisites of effective control are satisfied.

Compared with the situation at 31 December 2014, the only change in the scope of consolidation related solely to the increase of the percentage of capital held by the Parent Company in Banca Popolare di Spoleto S.p.A. ("BPS") upon completion of the Contribution of Banco Desio in BPS, effective for legal purposes from 1 April 2015: as a result of this increase, the shareholding firstly came to 81.71%, but was later reduced to 81.70% on conversion into BPS ordinary shares of 16,131 warrants awarded to holders of BPS ordinary shares, other than Banco Desio.

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

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

The scope of consolidation is determined in accordance with the provisions contained in IFRS 10 - *Consolidated Financial Statements*. Accordingly, the Parent Company consolidates an entity when the three elements of control are met (1. power over an investee; 2. exposure, or rights, to variable returns from its involvement with the investee; 3. ability to use its power over the investee to affect the amount of the investor’s returns). Generally, when an entity is held directly through voting rights, control comes from holding more than half of the voting rights. In other cases, the assessment of control is more complex and requires greater use of judgement, as it means taking into account all relevant factors and circumstances that could lead to control over the entity, such as:

- the purpose and design of the entity;
- the relevant activities, that is, the activities that significantly affect the entity’s returns and how they are governed;

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

Also included in the scope of consolidation is an SPV for which voting rights are not determining factors for the assessment of control. However, the requirements for effective control have been met, given that the Group has contractual rights that enable it to direct the relevant activities of the entity and it has the ability to influence the variability of the returns.

The extraordinary contribution of the business unit of Banco di Desio e della Brianza S.p.A. to Banca Popolare di Spoleto and the sale of the Milan branch of Banca Popolare di Spoleto to Banco di Desio e della Brianza S.p.A. have had a neutral effect on the interim consolidated financial statements at 30 September 2015.

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.	18.300	-
Rovere S.A.	20.000	57

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.	4,009,133	30,362	339,487	51,202	3,170	254,751	69,626	110,828	(68,927)	4,953	4,791	-	4,791	(4,823)	(32)
Rovere S.A.	2,470	-	-	6	-	1,167	2	1,299	(549)	749	617	-	617	-	617

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, taking into account, in any case, the specific nature of Credito Privato Commerciale S.A., which has been put into voluntary liquidation.

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 accounted for using the equity method.

Other aspects

Use of estimates and assumptions in preparing the consolidated interim report

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

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

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

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

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

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Directive 2014/59/EU (Bank Recovery and Resolution Directive) lays down new bank resolution rules to be applied from 1 January 2015 to all banks of the European Union. In particular, this directive provides that to activate the resolution mechanisms, funds are to be created through *ex ante* contributions, the target level of which is equal to 1% of the total amount of protected deposits of the banking system to be achieved by 31 December 2024.

Directive 2014/49/EU (Deposit Guarantee Schemes Directive) provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.
The contribution for 2015 due by the Group to this new fund, called the Single Resolution Mechanism, has been estimated on the basis of the information available to date.
With reference to the *ex ante* portion due under the DGS Directive, the obligation to pay the contribution was recorded in the third quarter of 2015, based on what was formally communicated by the FITD with letters addressed to all of the members on 4 March 2015 and 23 July 2015.
The accounting treatment of the obligation to pay both of these contributions is in accordance with IFRIC 21: these costs have been debited in the income statement to "Other operating expenses/income" and credited to "Other liabilities".
Note that the actual amounts required may differ from those estimated, even quite significantly, depending on the different interpretations regarding the method of recognition and measurement.

Comparability of interim consolidated financial statements

The quarterly report has to include the interim financial statements at 30 September 2015 and the comparative financial statements for the following periods:

- the balance sheet at the end of the previous year;
- the income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the corresponding period of the previous year.

Note that they include figures relating to the subsidiary Banca Popolare di Spoleto S.p.A., as the latter entered the scope of consolidation with effect from 1 August 2014; however, note that the income statement, statement of comprehensive income and cash flow statement at 30 September 2015 are not comparable with those of the previous period because the comparative figures only refer to a two-month period (August and September 2014).
In addition, given the disclosure requirements of IFRS 5 for non-current assets and groups of assets held for sale in the financial statements, we have reclassified the balance sheet figures at 30 September 2015 for the assets and liabilities of Rovere S.A., which are currently being sold.

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 - as well as 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.

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:

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

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

Measurement

Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.

For the purposes of determining fair value, the same criteria as for assets held for trading are applied.

For unquoted financial assets, inclusive of non-controlling interests, the fair value measurement is carried out using valuation techniques, that is, when a reliable determination of fair value is not possible, the assets in question are measured at cost (*Level 3*).

UCITS units that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*Level 1*). UCITS units that are not traded in an active market (particularly closed-end funds and hedge funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidability of the units (*Level 3*).

At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39, paragraph 61, for debt securities, listed and unlisted equities and for UCITS units traded in an active market, "significant" (higher than 25%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators. For UCITS units not traded in an active market and equity investments in investees other than subsidiaries or associates, "significant" (higher than 30%) or "extended" (more than 60 months) write-downs are considered to be objective impairment indicators.

In accordance with internal policy, pre-established thresholds being exceeded is considered to be impairment, with the consequent recognition in the income statement of the accumulated impairment loss incurred since the date of initial recognition.

The amount of the impairment is the difference between the asset's book value and its recoverable amount.

Derecognition

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

Recognition of items affecting the income statement

The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.

On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.

If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.

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 finance lease receivables and repurchase agreements with obligation to resale.

Transfers from "Financial assets available for sale" and "Financial assets held for trading" are only allowed in particular circumstances, as specified in IAS 39.

Measurement

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.

The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.

The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.

Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.

The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.

Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.

Non-performing loans include the various categories of impaired loans established by the Bank of Italy: doubtful loans, 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 taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.

Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default

(Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.

Specific analyses are carried out for exposures of a significant amount.

Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The evaluation is analytical, and takes account of the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees.

Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.

The 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).*

Derecognition

Loans are only derecognised if their sale involved the transfer of essentially all the risks and benefits associated with the loan. Conversely, if a significant part of the risks and benefits relating to loans that have been sold are retained, then they continue to be reported as assets in the balance sheet, even if formally ownership of the loans has been transferred.

Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans are reported in the balance sheet to the extent of the residual involvement, as measured by the exposure to changes in the value of the loans sold and to changes in their cash flows.

Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

Recognition of items affecting the income statement

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.

Interest on arrears is only recorded in the income statement when collected.

The interest that accrues over time as an effect of discounting impaired loans is recognised in the income statement under write-backs.

The effects of analytical and general assessments are recognised in the income statement.

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

In the case of loans acquired through business combinations, any higher value recorded in the 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.

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.

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 consistent manner with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.

Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets".

Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".

In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "Current tax assets".

If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).

Lastly, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.

Provision for termination indemnities

Measurement

The provision for termination indemnities is recorded in the financial statements using actuarial techniques.

The evaluation is carried out by independent external actuaries according to the accrued benefit method, using the Projected Unit Credit Method. This amount represents the present value, calculated from a demographic/financial point of view, of benefits payable to employees (termination indemnities) for the period of service already accrued, which is obtained by re-proportioning the total present value of the obligation to the period of service already rendered at the valuation date, taking into account the likelihood of resignations and requests for advances.

To determine the discount rate, reference is made to an index which represents the yield on a basket of high quality corporate bonds. In line with prevalent practice, an "AA" class index was selected.

Recognition of items affecting the income statement

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

Provisions for risks and charges - Other provisions

Classification

Provisions for risks and charges include provisions made to cover ongoing obligations that are related to work relationship or disputes, also tax disputes, that are the result of past events, for the settlement of which it is probable that there will be an outflow of resources that can be reliably estimated.

Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date.

Only when a business combination is being carried out in accordance with IFRS 3, the buyer can recognise a contingent liability 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 Group companies: amounts due to banks, amounts due to customers, bonds and certificates of deposit issued by the Bank, repurchase agreements with obligation to repurchase and other payables.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.

Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.

Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.

If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.

Securities issued are shown net of any repurchases.

Solely for disclosure purposes, the fair value is determined of debt and securities issued; for issued debt and certificates of deposit, the fair value substantially equates to book value, which represents a reasonable approximation thereof (*Level 3*). For bonds issued by Group companies, the fair value is determined by using valuation models to estimate and discount future cash flows (*Level 2*).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.

The re-placement of own securities previously repurchased is considered as a new issue measured at the new sale value.

Financial liabilities held for trading

Recognition and classification

Liabilities held for trading are recorded at fair value.

The financial instruments included in this caption are recognised on the subscription date or on the date of issue at an amount equal to the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument concerned.

This caption includes, in particular, trading derivatives with a negative fair value.

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at fair value, booking the effects to the income statement.

Derivative instruments traded in active markets are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*Level 1*).

Derivative instruments that are not traded in active markets are priced by using valuation techniques (*Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

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

Classification

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

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

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

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

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

Measurement and recognition of items affecting the income statement

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

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

Derecognition

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

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

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

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.

  Note that interest income (or interest expense) also includes amortisation for the year of the fair value differences measured with reference to the business combination, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (Caption 130. Net impairment adjustments to loans and receivables).
- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (*level 1 and level 2*). If these values cannot easily be determined or have a reduced level of liquidity (*level 3*), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

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

Finance leases

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

Securitisations

Loans and receivables subject to securitisation transactions completed prior to first-time adoption (FTA) of international accounting standards are not recognised in the financial statements in accordance with the extension option provided by IFRS

1, which makes it possible to avoid booking non-derivative financial assets/liabilities sold or deleted before the date of transition to IFRS (1 January 2004). Exposures to securitisations (in the form of junior securities or deferred purchase price) are classified as loans. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[1] introduced by IFRS 10, it is included within the Group's scope of consolidation.

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

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

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

INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

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

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

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

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

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

The following table shows the book values and fair values at 30 September 2015 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

[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.

("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

(amounts in thousands of Euro, ex dividend)

Type of financial instrument	Source portfolio	Destination portfolio	Book value at 30.09.2015	Fair value at 30.09.2015	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	5,718	5,754	111	(791)		309
Debt securities	HFT	L&R - customers	6,248	6,239	76	20		37
Debt securities	AFS	L&R - banks	5,246	5,458	(150)	221		131
Debt securities	AFS	L&R - customers	1,073	1,108	5	20		19
Debt securities	HFT	AFS	0	0	0	0		0
Equity instruments	HFT	AFS	0	0	0	0		0
Total			**18,285**	**18,559**	**41**	**(531)**	**0**	**496**

INFORMATION ON FAIR VALUE

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.

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.

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.

Consolidated interim financial statements

at 30 September 2015

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	30.09.2015	31.12.2014	Change	
			amount	%
10. Cash and cash equivalents	53,177	62,890	(9,713)	-15.44%
20. Financial assets held for trading	16,826	18,727	(1,901)	-10.15%
40. Financial assets available for sale	1,883,534	1,877,959	5,575	0.30%
60. Due from banks	248,348	288,282	(39,934)	-13.85%
70. Loans to customers	9,590,474	9,666,900	(76,426)	-0.79%
80. Hedging derivatives	7,233	8,372	(1,139)	-13.60%
90. Adjustment to financial assets with generic hedge (+/-)	1,475	2,478	(1,003)	-40.48%
100. Equity investments	15,632	14,806	826	5.58%
120. Property, plant and equipment	182,519	185,887	(3,368)	-1.81%
130. Intangible assets	18,330	18,384	(54)	-0.29%
of which:				
- goodwill	*15,322*	*15,322*		
140. Tax assets	218,056	241,040	(22,984)	-9.54%
a) current	*25,389*	*43,865*	*(18,476)*	*-42.12%*
b) deferred	*192,667*	*197,175*	*(4,508)*	*-2.29%*
of which Law 214/2011	*170,053*	*173,730*	*(3,677)*	*-2.12%*
150. Non-current assets and disposal groups held for sale	2,470		2,470	n.s.
160. Other assets	215,025	177,945	37,080	20.84%
Total assets	**12,453,099**	**12,563,670**	**(110,571)**	**-0.88%**

LIABILITIES

Liabilities and shareholders' equity	30.09.2015	31.12.2014	Change amount	Change %
10. Due to banks	738,758	1,017,467	(278,709)	-27.39%
20. Due to customers	8,040,940	7,444,025	596,915	8.02%
30. Debt securities in issue	2,138,171	2,798,752	(660,581)	-23.60%
40. Financial liabilities held for trading	5,070	3,259	1,811	55.57%
50. Financial liabilities designated at fair value through profit and loss	21,652	23,626	(1,974)	-8.36%
60. Hedging derivatives	21,063	6,717	14,346	213.58%
80. Tax liabilities	35,914	36,156	(242)	-0.67%
a) current	*3,728*	*2,156*	*1,572*	*72.91%*
b) deferred	*32,186*	*34,000*	*(1,814)*	*-5.34%*
90. Liabilities associated with assets held for sale	725		725	n.s.
100. Other liabilities	456,844	253,959	202,885	79.89%
110. Provision for termination indemnities	30,974	34,985	(4,011)	-11.46%
120. Provisions for risks and charges:	45,982	44,670	1,312	2.94%
b) other provisions	*45,982*	*44,670*	*1,312*	*2.94%*
140. Valuation reserves	33,214	27,975	5,239	18.73%
170. Reserves	722,941	693,201	29,740	4.29%
180. Share premium reserve	16,145	16,145		
190. Share capital	67,705	67,705		
210. Minority interests	51,462	54,427	(2,965)	-5.45%
220. Net profit (loss) for the period (+/-)	25,539	40,601	(15,062)	-37.10%
Total liabilities and shareholders' equity	**12,453,099**	**12,563,670**	**(110,571)**	**-0.88%**

CONSOLIDATED INCOME STATEMENT

	30.09.2015	30.09.2014	Change amount	Change %
10. Interest and similar income	280,688	251,731	28,957	11.50%
20. Interest and similar expense	(78,506)	(89,673)	11,167	-12.45%
30. Net interest income	**202,182**	**162,058**	**40,124**	**24.76%**
40. Commission income	135,178	102,789	32,389	31.51%
50. Commission expense	(16,687)	(13,795)	(2,892)	20.96%
60. Net commission income	**118,491**	**88,994**	**29,497**	**33.14%**
70. Dividends and similar income	300	133	167	125.56%
80. Net trading income	6,481	1,522	4,959	325.82%
90. Net hedging gains (losses)	(1,036)	(1,185)	149	-12.57%
100. Gains (losses) on disposal or repurchase of:	12,431	51,145	(38,714)	-75.69%
a) loans	*(2,064)*	*(448)*	*(1,616)*	*360.71%*
b) financial assets available for sale	*17,322*	*40,807*	*(23,485)*	*-57.55%*
c) financial assets held to maturity		*12,428*	*(12,428)*	*-100.00%*
d) financial liabilities	*(2,827)*	*(1,642)*	*(1,185)*	*72.17%*
110. Net results on financial assets and liabilities designated at fair value	(102)	(440)	338	-76.82%
120. Net interest and other banking income	**338,747**	**302,227**	36,520	**12.08%**
130. Net impairment adjustments to:	(105,213)	(89,052)	(16,161)	18.15%
a) loans	(105,040)	(89,894)	(15,146)	16.85%
b) financial assets available for sale	(325)	17	(342)	n.s.
d) other financial assets	152	825	(673)	-81.58%
140. Net profit from financial activities	**233,534**	**213,175**	**20,359**	**9.55%**
170. Net profit from financial and insurance activities	**233,534**	**213,175**	**20,359**	**9.55%**
180. Administrative costs:	(228,804)	(183,830)	(44,974)	24.46%
a) payroll costs	*(135,547)*	*(110,339)*	*(25,208)*	*22.85%*
b) other administrative costs	*(93,257)*	*(73,491)*	*(19,766)*	*26.90%*
190. Net provisions for risks and charges	(2,688)	1,083	(3,771)	n.s.
200. Net adjustments to property, plant and equipment	(6,255)	(4,805)	(1,450)	30.18%
210. Net adjustments to intangible assets	(1,007)	(832)	(175)	21.03%
220. Other operating charges/income	35,009	30,874	4,135	13.39%
230. Operating costs	**(203,745)**	**(157,510)**	**(46,235)**	**29.35%**
240. Profit (loss) from equity investments	1,573	10,385	(8,812)	-84.85%
280. Profit (loss) from current operations before tax	**31,362**	**66,050**	**(34,688)**	**-52.52%**
290. Income taxes on current operations	(6,538)	(20,982)	14,444	-68.84%
300. Profit (loss) from current operations after tax	**24,824**	**45,068**	**(20,244)**	**-44.92%**
320. Net profit (loss) for the period	**24,824**	**45,068**	**(20,244)**	**-44.92%**
330. Net profit (loss) pertaining to minority interests	715	485	230	47.42%
340. Parent Company net profit (loss)	**25,539**	**45,553**	**(20,014)**	**-43.94%**

	30.09.2015	30.09.2014
Basic earnings per share (Euro)	0.19	0.35
Diluted earnings per share (Euro)	0.19	0.35

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.09.2015	30.09.2014
10.	**Net profit (loss) for the period**	**24,824**	**45,068**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment		169
30.	Intangible assets		
40.	Actuarial gains (losses) on defined-benefit pension plans	1,355	(4,697)
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	7,907	143
90.	Cash-flow hedges	329	
100.	Financial assets available for sale	(3,775)	21,760
110.	Non-current assets and disposal groups held for sale		
120.	Portion of the valuation reserves of the equity investments carried at equity	(113)	409
130.	**Total other elements of income (net of income taxes)**	**5,703**	**17,784**
140.	**Total comprehensive income (Captions 10+110)**	**30,527**	**62,852**
150.	Total comprehensive income pertaining to minority interests	251	(3,154)
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**30,778**	**59,698**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.09.2015

	Balance at 31.12.2014	Changes in opening balances	Balance at 1.01.2015	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.09.2015	Minority interests at 30.09.2015
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.09.2015		
Share capital:																
a) ordinary shares	121,161		121,161										(2,583)		60,840	57,738
b) other shares	6,865		6,865												6,865	
Share premium reserve	38,813		38,813										(7,244)		16,145	15,424
Reserves:																
a) from profits	642,801		642,801	29,423		(3,682)							9,745		702,430	(24,143)
b) other	23,927		23,927									169			20,511	3,585
Valuation reserves:	27,135		27,135											5,703	33,214	(376)
Equity instruments																
Treasury shares	(75)		(75)										24			(51)
Net profit (loss) for the period	39,427		39,427	(29,423)	(10,004)									24,824	25,539	(715)
Group shareholders' equity	**845,627**		**845,627**		**(10,004)**	**(3,682)**						**169**	**2,656**	**30,778**	**865,544**	
Minority interests	**54,427**		**54,427**										**(2,714)**	**(251)**		**51,462**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.09.2014

	Balance at 31.12.2013	Changes in opening balances	Balance at 1.01.2014	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.09.2014	Minority interests at 30.09.2014
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.09.2014		
Share capital:																
a) ordinary shares	60,940		60,940				62,523								60,840	62,623
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145				23,534								16,145	23,534
Reserves:																
a) from profits	698,933		698,933	(7,822)		(40,142)									682,196	(31,227)
b) other	10,170		10,170									333			10,503	
Valuation reserves:	30,620		30,620											17,784	48,404	3,639
Equity instruments																
Treasury shares								(78)								(78)
Net profit (loss) for the period	(4,736)		(4,736)	7,822	(3,086)									45,068	45,553	(485)
Group shareholders' equity	**818,716**		**818,716**		**(2,984)**	**(8,896)**						**333**		**59,698**	**866,867**	
Minority interests	**221**		**221**		**(102)**	**(31,246)**	**86,057**	**(78)**						**3,154**		**58,006**

CONSOLIDATED CASH FLOW STATEMENT

A. OPERATING ACTIVITIES	Amount	
	30.09.2015	30.09.2014
1. Cash generated from operations	**215,066**	**159,632**
- interest received (+)	285,335	250,875
- interest paid (-)	(77,843)	(88,867)
- dividends and similar income (+)	300	133
- net commissions (+/-)	119,343	89,954
- payroll costs (-)	(133,459)	(103,446)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(79,705)	(54,451)
- other revenues (+)	74,565	89,347
- taxation (-)	26,530	(23,913)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(77,804)**	**(3,845,052)**
- financial assets held for trading	2,289	(13,287)
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	(7,987)	(634,593)
- loans to customers	(63,586)	(3,023,756)
- due from banks: on demand	(20,559)	32,085
- due from banks: other receivables	58,533	639
- other assets	(46,494)	(206,140)
3. Cash generated (absorbed) by financial liabilities	**(134,867)**	**3,586,553**
- due to banks: on demand	(34,895)	28,114
- due to banks: other debts	(243,808)	403,768
- due to customers	596,072	2,093,432
- debt securities in issue	(656,167)	699,752
- financial liabilities held for trading	1,392	2,024
- financial liabilities designated at fair value through profit and loss	(1,798)	(9,983)
- other liabilities	204,337	369,446
Net cash generated/absorbed by operating activities (A)	**2,395**	**(98,867)**
B. INVESTING ACTIVITIES		
1. Cash generated by	**125**	**181,608**
- sale of equity investments		
- dividends collected on equity investments		
- sale/redemption of financial assets held to maturity		181,568
- sale of property, plant and equipment	46	40
- sale of intangible assets		
- sale of lines of business	79	
2. Cash absorbed by	**(6,335)**	**(52,887)**
- purchase of equity investments		(71)
- purchase of financial assets held to maturity		
- purchase of property, plant and equipment	(5,323)	(51,079)
- purchase of intangible assets	(1,012)	(1,737)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(6,210)**	**128,721**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(8,830)	(3,086)
Net cash generated/absorbed by financing activities (C)	**(8,830)**	**(3,086)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(12,645)**	**26,768**

RECONCILIATION

Captions	30.09.2015	30.09.2014
Cash and cash equivalents at beginning of period	62,890	29,848
Net increase (decrease) in cash and cash equivalents	(12,645)	26,768
Cash and cash equivalents: effect of change in exchange rates	2,932	1,570
Cash and cash equivalents at end of period	53,177	58,186

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

	Captions	3rd quarter 2015	2nd quarter 2015	1st quarter 2015	3rd quarter 2014	2nd quarter 2014	1st quarter 2014
10	Interest and similar income	89,178	93,691	97,819	94,975	78,464	78,292
20	Interest and similar expense	(24,677)	(25,142)	(28,687)	(35,053)	(27,505)	(27,115)
30	**Net interest income**	**64,501**	**68,549**	**69,132**	**59,922**	**50,959**	**51,177**
40	Commission income	43,860	46,321	44,997	38,699	33,699	30,391
50	Commission expense	(5,554)	(5,953)	(5,180)	(5,470)	(4,465)	(3,860)
60	**Net commissions**	**38,306**	**40,368**	**39,817**	**33,229**	**29,234**	**26,531**
70	Dividends and similar income		300		45	88	
80	Net trading income	2,949	1,410	2,122	337	574	611
90	Net hedging gains (losses)	557	135	(1,728)	(103)	(9)	(1,073)
100	Gains (losses) on disposal or repurchase of:	2,243	630	9,558	8,240	14,569	28,336
	a) loans	*(1,063)*	*(814)*	*(187)*		*(448)*	
	b) financial assets available for sale	*3,522*	*3,561*	*10,239*	*8,563*	*15,818*	*16,426*
	c) financial assets held to maturity		*(22)*	*22*			*12,428*
	d) financial liabilities	*(216)*	*(2,095)*	*(516)*	*(323)*	*(801)*	*(518)*
110	Net results on financial assets and liabilities designated at fair value	19	132	(253)	(73)	11	(378)
120	**Net interest and other banking income**	**108,575**	**111,524**	**118,648**	**101,597**	**95,426**	**105,204**
130	Net impairment adjustments to:	(28,545)	(41,065)	(35,603)	(33,660)	(33,940)	(21,452)
	a) loans	*(28,427)*	*(40,896)*	*(35,717)*	*(33,635)*	*(34,756)*	*(21,503)*
	b) financial assets available for sale	*(192)*	*(133)*		*(198)*	*(39)*	*254*
	d) other financial assets	*74*	(36)	114	173	855	(203)
140	**Net profit from financial activities**	**80,030**	**70,459**	**83,045**	**67,937**	**61,486**	**83,752**
170	**Net profit from financial and insurance activities**	**80,030**	**70,459**	**83,045**	**67,937**	**61,486**	**83,752**
180	Administrative costs:	(80,021)	(76,590)	(72,193)	(69,467)	(58,464)	(55,899)
	a) payroll costs	*(45,112)*	*(45,563)*	*(44,872)*	*(42,018)*	*(34,710)*	*(33,611)*
	b) other administrative costs	*(34,909)*	*(31,027)*	*(27,321)*	*(27,449)*	*(23,754)*	*(22,288)*
190	Net provisions for risks and charges	(1,436)	(796)	(456)	624	990	(531)
200	Net adjustments to property, plant and equipment	(2,216)	(2,011)	(2,028)	(1,876)	(1,477)	(1,452)
210	Net adjustments to intangible assets	(355)	(325)	(327)	(312)	(263)	(257)
220	Other operating charges/income	13,007	10,658	11,344	10,599	11,116	9,159
230	**Operating costs**	**(71,021)**	**(69,064)**	**(63,660)**	**(60,432)**	**(48,098)**	**(48,980)**
240	Profit (loss) from equity investments	16	1,129	428	9,828	383	174
280	**Profit (loss) from current operations before tax**	**9,025**	**2,524**	**19,813**	**17,333**	**13,771**	**34,946**
290	Income taxes on current operations	(2,569)	2,592	(6,561)	(3,414)	(4,644)	(12,924)
300	**Profit (loss) from current operations after tax**	**6,456**	**5,116**	**13,252**	**13,919**	**9,127**	**22,022**
320	**Net profit (loss) for the period**	**6,456**	**5,116**	**13,252**	**13,919**	**9,127**	**22,022**
330	Net profit (loss) pertaining to minority interests	373	(240)	582	531	(21)	(25)
340	**Parent Company net profit (loss)**	**6,829**	**4,876**	**13,834**	**14,450**	**9,106**	**21,997**

Information on risks and related hedging policy

The following tables summarise the exposure by portfolio in accordance with the new classification of non-performing exposures (doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures) as per the 7th update to the Bank of Italy Circular no. 272. In particular, the loans classified according to the previously applicable categories as non-performing loans for 2014, have been reclassified to the new classes of risk by:

- eliminating "restructured loans" and reclassifying them as "unlikely to pay";
- reallocating the loans previously classified as "watchlist" to "unlikely to pay" if, based on the best available estimates, the bank believes that the conditions exist for a probable default at the reference date.

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

Portfolio/Quality	Banking Group					Other businesses		
	Doubtful loans	Unlikely to pay	Non-performing past due and/or overdrawn exposures	Past due performing loans	Other assets	Non-performing	Other assets	Total
1. Financial assets held for trading				604	15,821			16,425
2. Financial assets available for sale					1,811,112			1,811,112
3. Financial assets held to maturity								
4. Due from banks			84		248,264			248,348
5. Loans to customers	432,754	402,505	53,891	485,274	8,216,050			9,590,474
6. Financial assets designated at fair value through profit and loss								
7. Financial assets being sold					1,896			1,896
8. Hedging derivatives					7,233			7,233
Total 30.09.2015	**432,754**	**402,505**	**53,975**	**485,878**	**10,300,376**			**11,675,488**
Total 31.12.2014	**426,631**	**383,069**	**44,266**	**482,597**	**10,462,822**			**11,799,385**

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

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading						16,425	16,425
2. Financial assets available for sale				1,811,112		1,811,112	1,811,112
3. Financial assets held to maturity							
4. Due from banks	94	(10)	84	248,264		248,264	248,348
5. Loans to customers	1,398,103	(508,953)	889,150	8,761,458	(60,134)	8,701,324	9,590,474
6. Financial assets designated at fair value through profit and loss							
7. Financial assets being sold				1,896		1,896	1,896
8. Hedging derivatives						7,233	7,233
Total A	**1,398,197**	**(508,963)**	**889,234**	**10,822,730**	**(60,134)**	**10,786,254**	**11,675,488**
B. Other companies included in consolidation							
1. Financial assets held for trading							
2. Financial assets available for sale							
3. Financial assets held to maturity							
4. Due from banks							
5. Loans to customers							
6. Financial assets designated at fair value through profit and loss							
7. Financial assets being sold							
8. Hedging derivatives							
Total B							
Total 30.09.2015	**1,398,197**	**(508,963)**	**889,234**	**10,822,730**	**(60,134)**	**10,786,254**	**11,675,488**
Total 31.12.2014	**1,244,446**	**(390,480)**	**853,966**	**10,977,276**	**(57,452)**	**10,945,418**	**11,799,384**

At 30 September 2015 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 108,013 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 September 2015 amounted to Euro 271,741 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 September 2015 amounted to Euro 1,670 million and total write-downs to Euro 781 million (including BPS's non-performing loans and related write-downs).

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

Exposures/Geographical areas		Exposure subject to renegotiation under Collective Agreements					Other exposures					Total (net exposure)
		Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	
1. Financial assets held for trading							601	4			15,820	16,425
2. Financial assets available for sale											1,811,112	1,811,112
3. Financial assets held to maturity												
4. Due from banks											248,264	248,264
5. Loans to customers		26,994	4,638	3		282,738	373,850	40,318	19,698	19,853	7,933,232	8,701,324
6. Financial assets designated at fair value through profit and -												
7. Financial assets being sold											1,896	1,896
8. Hedging derivatives											7,233	7,233
Total	**30.09.2015**	**26,994**	**4,638**	**3**		**282,738**	**374,451**	**40,322**	**19,698**	**19,853**	**10,017,557**	**10,786,254**

As part of the portfolio of Loans to customers, the performing exposures subject to renegotiation granted by the Group to customers in financial difficulty ("forborne loans") amounted to Euro 150,208 thousand; the breakdown by age of past due performing exposures is reported below:

Portfolio/Quality		Exposures subject to renegotiation granted to customers in financial difficulty					Total net exposure
		Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not yet due	
Loans to customers		40,161	4,957	106		104,984	150,208
Total	**30.09.2015**	**40,161**	**4,957**	**106**		**104,984**	**150,208**
Total	**31.12.2014**	**40,016**	**7,680**	**1,162**		**37,737**	**86,595**

The tables which follow summarise the cash and off-balance sheet exposures in accordance with the new classification of non-performing exposures (doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures) as per the 7th update to the Bank of Italy Circular no. 272.

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

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans				
b) Unlikely to pay				
c) Past due non-performing loans	94	10		84
d) Other assets	323,374			323,374
TOTAL A	**323,468**	**10**		**323,458**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing				
b) Other	69,050			69,050
TOTAL B	**69,050**			**69,050**
TOTAL A+B	**392,518**	**10**		**392,508**

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

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans	787,534	354,780		432,754
b) Unlikely to pay	549,847	147,342		402,505
c) Non-performing past due and/or overdrawn exposures	60,722	6,831		53,891
d) Other assets	10,502,096		60,134	10,441,962
TOTAL A	**11,900,199**	**508,953**	**60,134**	**11,331,112**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	11,079	194		10,885
b) Other	444,910		1,517	443,393
TOTAL B	**455,989**	**194**	**1,517**	**454,278**
TOTAL A+B	**12,356,188**	**509,147**	**61,651**	**11,785,390**

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 September 2015; details are provided below:

a) Doubtful loans: Euro 227,358 thousand;
b) Unlikely to pay: Euro 44,343 thousand;
c) Non-performing past due and/or overdrawn exposures: Euro 40 thousand.

Information on the shareholders' equity

Consolidated Own Funds

	30.09.2015	30.06.2015
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	880,401	867,006
of which: CET 1 capital instruments subject to transitional provisions		
B. CET 1 prudential filters (+/-)	- 465	- 534
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	879,936	866,472
D. Items to be deducted from CET 1	25,893	25,202
E. Transitional provisions – Impact on CET 1 (+/-)	- 2,376	8,409
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	851,667	849,679
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	13,780	13,888
of which: AT1 capital instruments subject to transitional provisions	6,865	6,865
H. Items to be deducted from AT1		
I. Transitional provisions – Impact on AT1 (+/-)	- 2,876	- 2,390
L. Total Additional Tier 1 (AT1) (G - H +/- I)	10,904	11,498
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	193,136	202,421
of which: T2 capital instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional provisions – Impact on T2 (+/-)	2,917	
P. Total Tier 2 (T2) (M - N +/- O)	196,053	202,421
Q. Total Own Funds (F + L + P)	1,058,624	1,063,598

Consolidated capital adequacy ratios

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	30.09.2015	**30.06.2015**	**30.09.2015**	**30.06.2015**
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	**12,643,170**	**12,303,884**	**7,026,439**	**7,090,124**
1. Standardised methodology	12,642,631	12,303,285	7,025,900	7,089,525
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	539	599	539	599
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**562,115**	**567,210**
B.2 Risk of credit valuation adjustment			**1,488**	**107**
B.3 Regulatory risk				
B.4 Market risks			**7,744**	**7,639**
1. STANDARDISED METHODOLOGY			7,744	7,639
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.5 Operational risk			**68,680**	**68,680**
1. BASIC APPROACH			68,680	68,680
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.6 Other items			0	0
B.7 Total precautionary requirements			**640,027**	**643,636**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**8,000,333**	**8,045,448**
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			10.645%	10.561%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			10.782%	10.704%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			13.232%	13.220%

Certification of the Financial Reporting Manager

The undersigned, Mauro Walter Colombo, the Financial Reporting Manager in charge of preparing the corporate accounting documents of Banco di Desio e della Brianza S.p.A., declares pursuant to paragraph 2 of Article 154 bis of the Consolidated Finance Act that the accounting information contained in this "Consolidated Interim Report on operations as at 30 September 2015" agrees with the supporting documents, books of account and accounting records.

Desio, 10 November 2015

Financial Reporting Manager

Mauro Walter Colombo