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Consolidated interim financial statements at 30 June 2016

Gruppo Banco Desio

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

Board of directors

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

* *Members of the Executive Committee*

Board of Statutory Auditors

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

General Management

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

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

Financial Reporting Manager as per art. 154-bis CFA

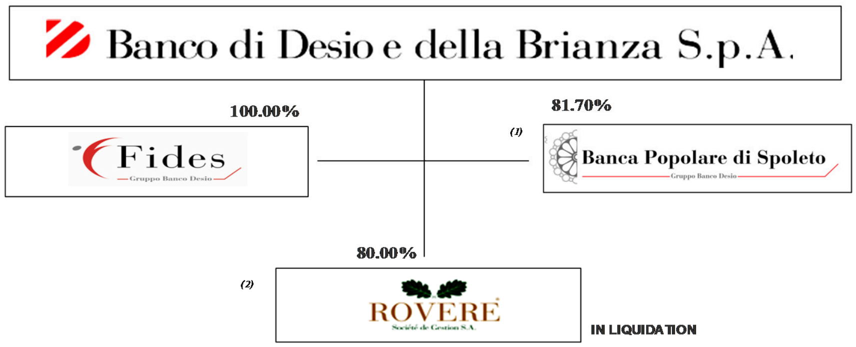
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The scope of consolidation at 30 June 2016 of the Banco Desio Group, to which this *Consolidated interim financial report* refers, includes the following companies:



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

(2) Rovere S.d.G. S.A. has ceased operations and was put into liquidation on 6 June 2016.

Note that while the Bank of Italy shows the Swiss company Credito Privato Commerciale SA in liquidation (100% held by the Parent Company) in the Register of Banking Groups as part of the Banco Desio Group, this company has been eliminated from the consolidation from 1 January 2016 in accordance with IFRS 10 as the liquidation process has been substantially completed and this has led to a *loss of control*.

Introduction

This consolidated interim financial report at 30 June 2016 of the Banco Desio Group, made up of the *interim report on operations and the condensed interim financial statements*, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 and in particular IAS 34 - Interim Financial Statements, as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

The figures and ratios included in the *interim report on operations*, where due, refer to the balance sheet of the *condensed interim financial statements* and to the reclassified income statement, as disclosed in the appropriate paragraph, in turn prepared starting from the income statement of the *condensed interim financial statements*. The comparative figures for the income statement and cash flow statement have been reclassified to ensure greater comparability.

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

Interim report on operations at 30 June 2016

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.06.2016	31.12.2015	Change amount	%
Total assets	12,498,588	12,248,130	250,458	2.0%
Financial assets	2,144,431	1,901,770	242,661	12.8%
Due from banks	230,320	292,992	-62,672	-21.4%
Loans to customers	9,401,401	9,386,311	15,090	0.2%
Property, plant and equipment	182,525	184,983	-2,458	-1.3%
Intangible assets	17,459	18,207	-748	-4.1%
Due to banks	993,963	753,115	240,848	32.0%
Due to customers	8,451,271	8,244,110	207,161	2.5%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,574,323	1,940,932	-366,609	-18.9%
Shareholders' equity (including Net profit/loss for the period) [1]	872,124	870,449	1,675	0.2%
Own Funds	1,093,309	1,106,070	-12,761	-1.2%
Total indirect deposits	13,087,381	12,310,102	777,279	6.3%
of which: Indirect deposits from ordinary customers	*8,243,578*	*8,343,925*	*-100,347*	*-1.2%*
of which: Indirect deposits from institutional customers	*4,843,803*	*3,966,177*	*877,626*	*22.1%*

Income statement [2]

Amounts in thousands of Euro	30.06.2016	30.06.2015	Change amount	%
Operating income	211,084	240,764	-29,680	-12.3%
of which: Net interest income	*119,806*	*137,681*	*-17,875*	*-13.0%*
Operating costs	141,659	139,606	2,053	1.5%
Result of operations	69,424	101,158	-31,734	-31.4%
Net profit (loss) from operations after tax	18,125	18,018	107	0.6%
Non-recurring profit (loss) after tax	4,834	350	4,484	n.s.
Net profit for the period [1]	22,289	18,710	3,579	19.1%

[1] *pertaining to the Parent Company;*
[2] *from the Reclassified income statement.*

Key figures and ratios

	30.06.2016	31.12.2015	Change %
Capital/Total assets	7.0%	7.1%	-0.1%
Capital/Loans to customers	9.3%	9.3%	0.0%
Capital/Due to customers	10.3%	10.6%	-0.3%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	55.4%	44.8%	10.6%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	10.8%	10.8%	0.0%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	10.9%	11.0%	-0.1%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.5%	13.9%	-0.4%
Financial assets/Total assets	17.2%	15.5%	1.7%
Due from banks/Total assets	1.8%	2.4%	-0.6%
Loans to customers/Total assets	75.2%	76.6%	-1.4%
Loans to customers/Direct customer deposits	93.8%	92.2%	1.6%
Due to banks/Total assets	8.0%	6.1%	1.9%
Due to customers/Total assets	67.6%	67.3%	0.3%
Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets	12.6%	15.8%	-3.2%
Direct customer deposits/Total assets	80.2%	83.2%	-3.0%

	30.06.2016	30.06.2015	Change %
Cost/Income ratio	67.1%	58.0%	9.1%
Net interest income/Operating income	56.8%	57.2%	-0.4%
Result of operations/Operating income	32.9%	42.0%	-9.1%
Profit (loss) from operations after tax/Capital [(3)] - *annualised* [(4)]	4.3%	3.9%	0.4%
ROE [(3)] - *annualised* [(4)(5)]	4.8%	4.6%	0.2%
Profit (loss) from operations before tax/Total assets (ROA) - *annualised* [(4)]	0.4%	0.3%	0.1%

	30.06.2016	31.12.2015	Change %
Net doubtful loans/Loans to customers	5.0%	4.7%	0.2%
Net impaired loans/Loans to customers	9.8%	9.6%	0.1%
% Coverage of doubtful loans	59.5%	58.5%	1.1%
% Coverage of doubtful loans, gross of cancellations [(6)]	64.5%	64.2%	0.3%
% Total coverage of impaired loans [(6)]	48.4%	47.5%	0.8%
% Coverage of impaired loans, gross of cancellations [(6)]	52.6%	52.2%	0.4%
% Coverage of performing loans	0.62%	0.67%	-0.06%

Structure and productivity ratios

	30.06.2016	31.12.2015	Change amount	Change %
Number of employees	2,360	2,371	-11	-0.5%
Number of branches	271	275	-4	-1.5%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(7)]	3,974	3,875	99	2.6%
Direct deposits from customers per employee [(7)]	4,238	4,204	34	0.8%

	30.06.2016	30.06.2015	Change amount	Change %
Operating income per employee [(7)] - *annualised* [(4)]	178	195	-17	-8.7%
Result of operations per employee [(7)] - *annualised* [(4)]	59	85	-26	-30.6%

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

[(4)] *the amount reported at 30.06.2015 is the final figure at the end of 2015;*

[(5)] *the annualised ROE at 30.06.2016 does not take into consideration the annualisation of the Net non-recurring operating profit;*

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

[(7)] *based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.*

The macroeconomic scenario

The macroeconomic picture

International scenario

Over the past 12 months, a series of events (the Greek debt, the Spanish elections and the British referendum), whose actual effects are not yet fully manifest, has heightened uncertainty about the recovery of the world economy.
However, international economic activity has been showing generally positive signs since the start of the year: in April, world trade and industrial production posted increases, both on a monthly basis (+0.5% for both) and on an annual basis (1.4% for world trade, 1.6% for industrial production). If, on one hand, signs of stabilization in emerging countries have increased, on the other, there is a bit more concern about the strength of the US economic recovery. Regarding the Eurozone, the unexpected strength that emerged earlier this year during the run-up to the British referendum was then undermined by the uncertainty caused by its outcome.

For the Eurozone, 23 June 2016 was a historical milestone: the UK referendum expressed the will of the people to leave the European Union ("Brexit"). The potential effects of this change of direction on the real economy will become clearer over the next two to three years. The institutional timing, however, is only apparently set in stone. While reference is made generally to a period of two years, the actual timing by which new treaties will be signed and how relations between the UK and the EU countries will be governed are still unknown and will depend on the political climate in which the negotiations take place. The world of finance, on the other hand, operates at a different speed, immediately building their expectations of the new institutional scenarios into the figures. The day after the referendum, financial markets responded with heavy and widespread falls, both in Europe and in the rest of world. If Brexit were to represent a breaking point that is able to influence the political balance, these negative effects could recur and worsen periodically, taking into account the elections due to take place between now and next year.
In terms of monetary policy, the Brexit risk and a less brilliant performance on the part of the labour market convinced the Fed in June to leave its benchmark rates unchanged. The ECB did not change its interest rates either, instead widening the expansionary measures put in place so far by launching a programme for the purchase of corporate bonds (buying 4.9 billion euro of securities in 10 days) and long-term refinancing operations (TLTRO II). With regard to the latter, the results of the first auction showed that the European banking system has completely replaced the TLTRO I funds and that, after replacing these funds at cheaper terms, the net demand was still positive (31 billion euro), even if lower than market expectations.
Furthermore, over the coming months, the economies of Advanced Countries will have to face up to a potential political risk. Within the Eurozone, the situation is complicated by a series of general elections during the period 2016/2017 (including Germany); In the US, 2016 is the year of the presidential elections and internal changes to the Republican Party are causing a growing concern inside and outside the country about the risk that American foreign policy could again become a destabilising factor, as the time of Second Gulf War (2003). For Italy, in addition to the uncertainties regarding the banking system, which still holds a quantity of doubtful loans that are perceived by international markets as excessive, it is not yet clear how the divisions in the main political movements will impact government stability and the economy in general: for this purpose, a key test will be the constitutional referendum to be held in October.

United States

American economic growth is struggling to regain its strength. In the first quarter of 2016 GDP grew less than in the previous quarter (0.3%, formerly 0.4%): the OECD's leading indicator (which has dropped below the 100 mark) indicates that the prospects for the economy will remain uncertain for the next six months.

In the first five months of 2016, employment increased less than in the same period last year (150,000 units/month, formerly 228,000), but despite that, unemployment managed to hit a low (4.8%). In May, industrial production and retail sales fell again, after the apparent recovery in April that had led many to assume a reversal in the trend. GDP growth is conditioned by weak capital investment and household consumption which are growing less vigorously than in the past (2% versus 4% in the '90s), even though the unemployment rate suggests a situation of full employment. The reasons why household consumption is contributing less to GDP can be traced to structural factors related to demographic change (the falling birth rate and migration flows, the delay in school leavers joining the workforce as education gets more widespread) and changes in preference between work and leisure that are unlikely to change in the short term. In May, consumer prices have recorded a growth of 1.1%, the same as the previous month. Core inflation, however, stood at 2.2%, slightly up from 2.1% in the previous month.

Japan

At the beginning of 2016, GDP turned positive again compared with the last quarter of the previous year (+0.5%, formerly -0.4%). The economy continues to be characterised by a fundamental weakness and, above all, inflation is back in negative territory again (-0.1%), despite the efforts of the Central Bank in terms of liquidity expansion which temporarily turned it positive. In the initial months of 2016, nominal wages showed weak growth, combined with an overall improvement in the labour market. Improvements in wages and employment have allowed consumption (+0.6%) to bolster domestic demand, even if they did not have any impact on inflation. Household confidence is basically stable since the start of the year, while the investment environment remains very weak (-0.7% in March), both for the construction industry and for manufacturing. High plant capacity, their low rate of utilisation and pessimistic expectations with regard to demand (with exports heavily penalised by the yen's appreciation against the dollar) still continue to affect investment growth. The government has postponed the new increase in consumption tax (from April 2017 to October 2019), thereby avoiding the potential impact on growth, but at the expense of the public accounts which need to be consolidated.

Emerging Economies

The Russian economy gave its first signs of improvement in the first quarter of the year: GDP decrease less than the previous quarter (-1.2%, formerly -3.8%). Even if information about the various components of demand is not available, the main economic indicators show minor contractions in practically all items: of these, the major recoveries have been in capital investment and retail sales. The slight recovery in oil prices has not yet had a significant impact on the Russian economy; the public sector continues to have its finances under pressure and had to have recourse to reserve funds to finance spending, making it impossible to envisage any great support for the economy in the coming quarters.

In March the Chinese GDP grew by 6.7%, slightly down on the previous quarter (+6.8%). The main items of domestic demand that make it up are giving signs of stabilisation (retail sales +10%, industrial production +6%, gross fixed capital investment +10.5%), while there has also been an improvement in foreign trade (exports +1.1 %, imports +2.6%). The construction sector showed signs of recovery in March, thanks to ad hoc measures taken by the government: sales increased by 40%, while the stock of unsold homes has dropped, with an increase even in new construction. Monetary policy remains focused on targeted measures to ensure that the country's economic system has adequate liquidity: the downward pressure on the yuan was not repeated in the first quarter of the year (except for at the time of the "Brexit" vote), inflation remains well under control (+2%) thanks to fiscal policy interventions ready to support domestic demand with government spending.

India's GDP at the beginning of 2016 grew faster than in the last quarter of the previous year (+8.0%, formerly +7.2%). The major push was provided by household consumption, though this was affected by inflation which remained around 5% in March; consumption was facilitated above all by the favourable trend in raw material prices (food in particular). Unfortunately, capital investment continued to be weak due to excess installed production capacity and the difficulty in finding local funding. In fact, monetary policy had to deal with the poor condition of the Indian banking system (with non-performing loans rising and banks having to recapitalise through the public sector and the market); because of which the access to credit for businesses companies was shifted to foreign operators, but at the expense of unstructured local businesses companies.

In the second quarter of 2016, Brazil's GDP recorded a lower decline than the previous quarter (-5.0%, formerly -5.9%). But the economic environment, unfortunately, remains extremely fragile: the measures adopted by Parliament, under the leadership of the new president Temer, aim to regain the credibility swept away by the Petrobras scandal. The crisis of confidence and the credit crunch continue to penalise investments, while the sharp rise in unemployment is inevitably hitting household consumption. On the other hand, there are tentative positive signals, related to the slowdown in inflation (9.5% in May, still higher than the target figure) and a partial recovery by the real currency markets, which appreciated by 13%w compared with September 2015. The Brazilian recession will probably continue in 2016, altought with a lower intensity compared with 2015.

Europe

The economic recovery in the Eurozone is beginning to speed up: in March, GDP grew (+0.55%, from +0.43% the previous quarter), mainly thanks to the resilience of the French (+0.65%) and German (+0.68%) economies and a sustained trend in consumer spending in all Eurozone countries. That said, in the initial part of the year, there were signs of uncertainty about the strength of the economic recovery: in March, industrial production and new manufacturing orders fell (-0.7% and -2.6% respectively), whereas retail sales increased (+0.4%). In June, the index of business confidence rose (-2.8, formerly -3.7) thanks to an improvement in Germany (-2.4, formerly -3.2). On the other hand, the consumer confidence index declined (-7.3, formerly -7.0), mainly because of the deterioration recorded in France (-12.6, formerly -11.2).
The labour market is continuing to show signs of improvement: in May, unemployment fell to 10.1% (having been 10.4% in December). Inflation is still around an all-time low: in May consumer prices decreased by 0.1%. The decline affected all of the main Eurozone countries. Core inflation, however, stood at 0.8%, slightly up from 0.7% on the previous month.

Italy

At the beginning of 2016, GDP grew by 0.3% q/q and 1% y/y (formerly +0.8% in 2015).

All components of GDP provided positive contributions to overall growth with the exception of net exports. Consumption provided the main support for the improvement in economic activity, thanks to the contribution made by households (+0.3%), together with changes in inventories (+0.2%). Net foreign demand, however, made a negative contribution of 0.2% due to the slowdown in the economies of Emerging Countries.

The seasonally adjusted index of industrial production that showed an decrease (-0.6% y/y) in the latest figures available (May): the indices adjusted for calendar effects only show an increase in intermediate goods (+1.8%). A significant decrease has been seen in the energy sector (-5.9%) and, to a lesser extent, in capital goods (-1.5%), as well as in consumer goods (-0.7%).

In April new orders recorded a strong decline (-11.3% y/y). Retail sales, by contrast, have maintained the growth trend (+0.5% y/y). In June, the consumer confidence index decreased considerably (-12.3, formerly

-6.6 in March), whereas the business index improved (-2.4, formerly -3.2 in March). As regards the labour market, unemployment fell in May (11.5%, formerly 11.7% in March), as did youth unemployment (36.9%, formerly 39.1% in March). The harmonised index of consumer prices remained substantially unchanged in May (-0.3%), similar to core inflation (+0.6%, from +0.5% in March). Recent estimations for 2016, predict a lower GDP growth of 0.8% (formerly 1.1%) due to the expected weakness in international demand. In fact, household consumption should still continue to grow (+0.9%, formerly +1.1% in March), benefiting from the climate of confidence and the expected trend in retail sales. The forecasts for investments (+2.0%, formerly +3.0%) and exports (-1.3%, formerly -1.4%) are more affected by international demand. The upswing in consumption will help boost consumer prices, with inflation expected around 0.5% at the end of 2016 (formerly 0.8%).

Capital markets and the banking system in Italy

Money and financial markets

In May, the ECB left its benchmark rates unchanged (benchmark rate of 0.05%, deposit rate of -0.40%). June saw the start of the TLTRO II programme (4 auctions) with a duration of 4 years and a negative rate equal to the new deposit rate (-0.40%). The extended bond purchase plan by the ECB will continue, if necessary, beyond the deadline (March 2017) and, in any case, until there is a sustained rise in inflation close to its declared target (2%). After raising the benchmark in late 2015 (in a range between 0.25% and 0.50%) the Fed has been more cautious about the hypothetical gradual rise in rates, as the fall in commodity prices and the rise in the dollar's exchange rate suggest that inflation will remain low for longer than previously estimated.

In the first ten days of July, the 3-month Euribor was negative, reaching the new low record (-0.29%); the 10-year IRS rate, on the other hand, was at 0.30%, 64 bps less than December (0.94%).

On the bond market, 10-year benchmark rates fell in USA (1.64%, formerly 2.24% in December) and in the Eurozone; in Germany, the benchmark rate came to 0.16% (formerly 0.60% in December), while in Italy it was 1.46% (formerly 1.60% in December). The spread between the yield on 10-year Italian and German government bonds was affected by the volatility in the markets triggered by the outcome of the "Brexit" referendum, resulting in an increase in the June average (145 bps, formerly 100 in December).

In June, international share prices fell on average on a monthly and annual basis. The Dow Jones Euro Stoxx index fell by -1.5% m/m (-1.6% y/y), the Standard & Poor's 500 index grew by +0.8% (-0.7% y/y) and the Nikkei 225 index declined by -2.9% (-21.3% y/y). Similarly, the major European stock market indices showed negative monthly performances; the FTSE Mib index fell by -5.2% (-26.4% y/y), in France the Cac40 index declined by -1.8% (-12.9% y/y), in Germany the Dax30 index decreased by -1.5% (-12.3% y/y).

With reference to the main banking indices, the indicators have largely followed the monthly and annual trends of the principal equity indices: the Italian FTSE Banks declined by -13.9% m/m (-50.8% y/y), the Dow Jones Euro Stoxx Banks by -7.9% m/m (-38.7% y/y) and the S&P 500 Banks by -2.2% m/m (-14.3% y/y).

In the second quarter of 2016, markets were influenced by the volatility linked to the outcome of the "Brexit" referendum, the pressures on banking markets linked to a European agreement for the management of doubtful loans and fears about slowing economic growth in China.

Banking markets

In June, the annual trend in deposits from resident customers worsened compared with the annual change recorded at the end of 2015 (-1.1%, formerly -0.6%). As recorded in previous reports, the trend in deposits continues to be positive (3.5%), whereas bonds are showing a strong contraction (-15.1%). The observation of the different components shows a clear gap between the short-term and medium/long-term sources. Deposits from resident customers (net of the central counterparties) rose in June by 3.5% y/y, whereas bonds continued their substantial decline, a trend already seen in 2014. Foreign deposits reversed their upward trend seen in previous quarters (-2.2%, formerly +3.1% in December). The average remuneration of bank deposits was 1.07%, decreasing again on the December figure (1.19%). The interest rate on euro deposits of households and non-financial companies came to 0.46% (0.53% in December), as the rate on bonds which came to 2.87% (formerly 2.94%) and 1.09% on repurchase agreements (0.91% in December).

In June, the annual trend of bank loans to households and businesses improved slightly compared with the change at the end of 2015 (-0.02%, formerly -0.34%). In May, loans to households grew by 1.5% y/y (formerly 0.8% in December), as did those to companies (+0.3%, formerly -0.2%). Breaking down loans by duration, the medium/long-term component has maintained the annual increase already seen previously (+1.2%, formerly +2.2% in December), whereas the short-term one has remained negative (-4.7%, formerly -4.8% in December).

Overall, in the first half of 2016, the trend in loans continues to be influenced by the performance of capital investment and the weak economic cycle; in May gross doubtful loans rose by +3.2% y/y (formerly +9.4% in December) with an incidence on total loans of 11.0% (10.4% in December). The ratio of net doubtful loans/total net loans comes to 4.7% (formerly 4.9% in December). The latest available figures from Cerved (March 2016) show that business failures are on the decline (-4.5% y/y).

Interest rates on new loans have remained low; the rate on home purchase loans to families came to 2.21% (formerly 2.51% in December), a new all-time low. In May, the share of the flow of fixed-rate loans was 66.6% (formerly 66.0% in December). The rate on new loans to non-financial companies fell to 1.85% (formerly 1.99% in December). Overall, the weighted average interest rate on total loans to households and non-financial companies in March came to 3.02% (formerly 3.26% in December), a new all-time low since the start of the crisis. In June, the spread between the average rates on loans and deposits amounted to 1.95%, decreasing on the previous postings (formerly 2.07% in December), still far from the pre-crisis value (3.29% at the end of 2007).

The distribution network

The Group's distribution network at 30 June 2016 consists of 271 branches, including 149 in the Parent Company Banco di Desio e della Brianza and 122 of Banca Popolare di Spoleto.

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

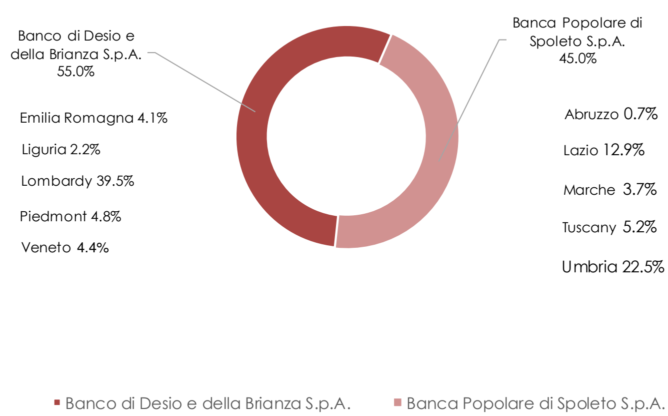
The distribution network is organised into seven regional Areas, each of which is supervised by an Area Manager and for which it is envisaged that each Area will be assigned the following roles to support its Area Manager:

- *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 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.

As part of the rationalisation of the distribution network, in June, Banca Popolare di Spoleto S.p.A. closed four branches, in Sferracavallo, near Orvieto (TR), San Secondo, fraction of Città di Castello (PG), Cerreto di Spoleto (PG) and Recanati (MC).

The following chart gives a breakdown of the overall distribution network by Group company with the percentage represented by the region at 30 June 2016.

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



Significant events

General Management

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

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

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

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

Atlante Fund

On 27 April 2016, the Parent Company's Board of Directors authorised a Euro 7 million investment in the "Atlante Fund", of which Euro 4.2 million was already called up at 30 June 2016. This is a closed-end AIF ("on call"), reserved for institutional investors, which aims to make a "system" intervention in the Italian market as an investment portfolio, targeting:

- Italian banks with increases in capital already announced to the market (Banca Popolare di Vicenza and Veneto Banca) and other Italian banks with recapitalisations aimed at ensuring compliance with the conditions established or requested by the supervisory authorities;
- financial instruments issued by one or more entities set up for the purchase of non-performing loans (NPLs) of a number of Italian banks, with a minimum investment of at least 30% of the Fund assets;
- individual investments made in a perspective of economic and financial sustainability of each individual transaction and overall profitability of the portfolio over the medium to long term.

The valuation of the investment, recorded under financial assets available for sale, takes place in accordance with the Parent Company's policy for closed-end funds.

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

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

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

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

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

On 23 May 2016, following Consob's authorisation to publish the prospectus for readmission to trading of the shares issued by Banca Popolare di Spoleto, Borsa Italiana S.p.A. asked BPS whether it intended to go ahead with what was needed to achieve it by specifying manner and timing, or whether it had decided not to go ahead with it, given the fact that there were not the conditions for readmission, i.e. a minimum of 10% of the shares available as a market float.

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

Administrative proceedings relating to MEF Decrees

On 29 February 2016 the two judgements were filed in which the Council of State rejected the appeals filed by some former Representatives of BPS and the former Parent Company Spoleto Credito e Servizi Soc. Coop., in compliance with the judgements of the same Council of 9 and 26 February 2015 (concerning the dissolution of the administration and control bodies of the two companies and their submission to the extraordinary administration procedure arranged with the MEF Decrees of February 2013); it has therefore established that there was no violation or circumvention of the judgement by the MEF. A number of appeals presented at the same time for alleged substantive defects of the same MEF Decrees of April 2015 subject to the judgement of compliance are still pending before the Regional Administrative Court of Lazio. Banca Popolare di Spoleto, even if a defendant but a counter-interested party, still decided to appear in court to protect its interests.

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

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

Fides SpA

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

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

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

Discussions with the Swiss Supervisory Authority (FINMA) have continued to finalise the technical details and formalities to complete the liquidation of the subsidiary. On 29 June 2016, FINMA issued a statement saying that the company is no longer subject to banking supervision (which is also the basis for the cancellation of the company from the Register of Banking Groups held by the Bank of Italy). Following FINMA's statement, CPC is able to repay its capital to the Parent Company and the liquidation procedure continues for the sole purpose of cancelling the company from the companies register in the shortest time possible.

After the events that had taken place by 31 December 2015, with the substantial completion of the liquidation of CPC, from 1 January 2016, the Parent Company considered the investment in CPC as completely disposed of, due to the loss of control over it, even if the capital and reserves would be distributed some time later.

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

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

As a confirmed above, on 3 August 2016, the liquidators distributed equity reserves for a total of Euro 33.3 million to the Parent Company.

Spoleto Mortgages 2003: early closing of the securitisation

The first quarter of 2016 saw the early termination of the securitisation launched in 2003 with the setting up of the SPV "Spoleto Mortgages Srl". Banca Popolare di Spoleto repurchased the portfolio of outstanding receivables, together with the interest and all ancillary rights; BPS's obligation for the selling price was subject to partial compensation with the receivable, also owed to BPS, for the excess spread of Euro 3.9 million. BPS recorded a gain of Euro 1.1 million on this buy-back.

Rovere Societé de Gestion S.A. in liquidation (“Rovere”)

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

Given that no opportunities arose to sell the equity investment, on 6 June 2016 Rovere's Shareholders' Meeting decided that it should be liquidated. On 29 June 2016, the Luxembourg Supervisory Authority (CSSF - *Commission de Surveillance du Secteur Financier*) announced the company's cancellation from the official list of authorised management companies (which is also a prerequisite for its cancellation from the Register of Banking Groups held by the Bank of Italy).

In July 2016, the Liquidator completed the company's liquidation plan, which includes a forecast of future charges involved in the liquidation procedure, without there being any critical issues that might affect the valuation of the investment.

Istifid S.p.A.

On 11 January 2016, given the evolutions in the sector where Istifid S.p.A. operates, characterised by increasing concentration, the Board of Directors of the Parent Company agreed to continue negotiations to sell its investment in this product company. On 13 April 2016, Banco Desio, Credito Valtellinese S.C. ("Creval") and Canova Investissements S.r.l. signed a preliminary agreement for the sale of their entire investment in Istifid S.p.A. to Unione Fiduciaria S.p.A., which was completed on 2 May 2016. This operation resulted in the recognition (a) of a gain on disposal of Euro 1.03 million in the separate financial statements of the Parent Company, and (b) of a loss from disposal of Euro 0.4 million in the consolidated financial statements, both subject to minor changes at the end of the price adjustment procedure on 27 July 2016.

Part of the selling compensation of Istifid shares may be reinvested by Creval and Banco Desio in Unione Fiduciaria shares up to a maximum of 8% of the share capital. In the event of a full investment, Banco Desio would acquire a 2% holding in Unione Fiduciaria S.p.A.

General inspection of Banco Desio by the Bank of Italy

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

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

In compliance with IFRIC 21, Group banks already recorded in the first quarter of 2016 the current year's ordinary contribution to the Single Resolution Mechanism of Euro 3.8 million, of which Euro 2.9 million by the Parent Company and Euro 0.9 million by Banca Popolare di Spoleto, given that the "obligating event" under the rules for determination of the contribution to the Single Resolution Mechanism contained in Regulation 2015/63/EU had taken place. Following the relevant communications by the National Resolution Authority, the contribution was paid in June.

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

"Voluntary scheme" of the Interbank Deposit Protection Fund

As a result of the decision of the European Commission and the subsequent MEF decree ordering Tercas to reimburse the grant received in 2014 to the Interbank Fund, on 28 April 2016 the Voluntary Scheme of the

Interbank Fund intervened, again in support of Tercas, for the same amount that it had reimbursed to the Interbank Fund. For the Parent Company alone, this led to the return of the contribution paid for Euro 1,571 thousand (registered as income in Caption 130d) Net impairment adjustments to other financial transactions) and the simultaneous payment of a contribution to the Voluntary Scheme for Euro 1,576 thousand (recorded under caption 150b) Other administrative costs).

After the support to Tercas, on 15 June 2016, the Management Board of the Voluntary Scheme also decided to intervene in support of Cassa di Risparmio di Cesena S.p.A. (CRC) by subscribing to a reserved capital increase of Euro 280 million (for which its Shareholders' Meeting on 3 July 2016 gave specific powers to the Board of Directors).

The General Meeting of the Voluntary Scheme of the Interbank Fund held on 17 June 2016 then approved the raising of the Fund's endowment for future interventions to Euro 700 million (in addition to the above intervention in favour of Tercas and already allocated for Euro 280 million to the capital increase of Cassa di Risparmio di Cesena S.p.A.). The Group's banks consequently recorded their commitments to the Interbank Fund for a total of Euro 5.5 million, of which Euro 3.3 million for the Parent Company and Euro 2.2 million for Banca Popolare di Spoleto.

Participation in "TLTRO II"

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

Significant subsequent events

General Management

On 18 July 2016, Maurizio Ballabio, formerly Deputy General Manager of Corporate Affairs of Banca Popolare di Spoleto, was appointed to the same position at the Parent Company.

At the same time, Ippolito Fabris was appointed Deputy General Manager of Corporate Affairs of Banca Popolare di Spoleto; he previously held the same office at the Parent Company.

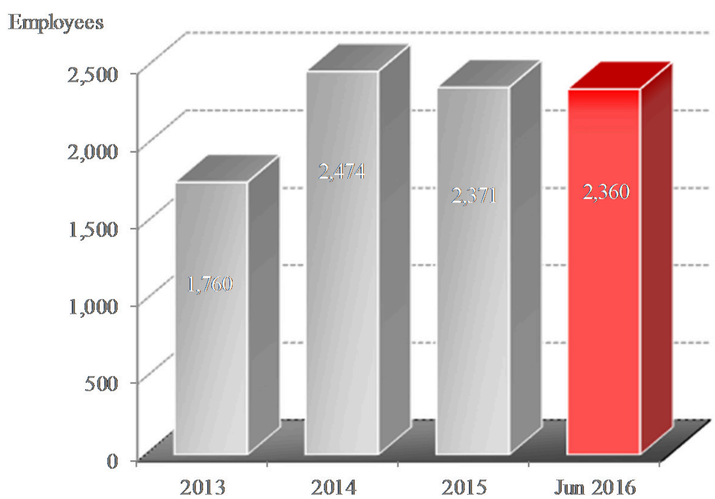
Guarantee fee relating to "qualified" deferred tax assets as per D.L. 59/2016

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

Human resources

At 30 June 2016, the Group had 2,360 employees, a decrease of 11 people (-0.5%) compared with the end of the previous period.
The trend in the Group's workforce in recent years is shown by the graph below.

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



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

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

No. of Employees	**30.06.2016**	**%**	**31.12.2015**	**%**	**Change Amount**	**Change %**
Managers	35	1.5%	36	1.5%	-1	-2.8%
3rd and 4th level middle managers	481	20.4%	473	20.0%	8	1.7%
1st and 2nd level middle managers	616	26.1%	608	25.6%	8	1.3%
Other personnel	1,228	52.0%	1,254	52.9%	-26	-2.1%
Group employees	**2,360**	**100.0%**	**2,371**	**100.0%**	**-11**	**-0.5%**

Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 June 2016 reached Euro 23.1 billion, representing an increase of about Euro 0.6 billion with respect to the 2015 year end balance (2.7%), 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**

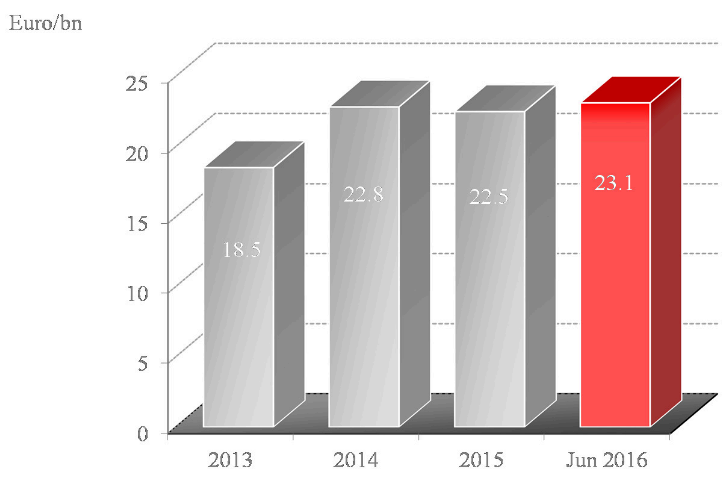
Amounts in thousands of Euro	30.06.2016	%	31.12.2015	%	Change Amount	Change %
Due to customers	8,451,271	36.6%	8,244,110	36.7%	207,161	2.5%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,574,323	6.8%	1,940,932	8.6%	-366,609	-18.9%
Direct deposits	**10,025,594**	**43.4%**	**10,185,042**	**45.3%**	**-159,448**	**-1.6%**
Ordinary customer deposits	8,243,578	35.7%	8,343,925	37.1%	-100,347	-1.2%
Institutional customer deposits	4,843,803	20.9%	3,966,177	17.6%	877,625	22.1%
Indirect deposits	**13,087,381**	**56.6%**	**12,310,102**	**54.7%**	**777,279**	**6.3%**
Total customer deposits	**23,112,975**	**100.0%**	**22,495,144**	**100.0%**	**617,831**	**2.7%**

Direct deposits

Direct deposits at the end of the first six months amounted to Euro 10 billion, a decrease of Euro 0.2 billion due to the reduction in the balance of debt securities in issue and financial liabilities valued at fair value of Euro 0.4 billion (-18.9%) partly offset by the rise in amounts due to customers of Euro 0.2 billion (+2.5%).

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

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



Indirect deposits

Overall, at 30 June 2016 indirect deposits posted an increase of 6.3% compared with the end of the previous year, rising to Euro 13.1 billion.
In particular, the trend is attributable to deposits from institutional customers, up by Euro 0.9 billion (+22.1%), which resulted in a balance of Euro 4.8 billion, while ordinary customer deposits came to Euro 8.2 billion, a decrease of Euro 0.1 billion (-1.2%), due to the performance of assets under administration (-6.4%), partially offset by an increase in assets under management (+3.1%).

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

Table no. 3 - **INDIRECT DEPOSITS**

					Change	
Amounts in thousands of Euro	**30.06.2016**	**%**	**31.12.2015**	**%**	**Amount**	**%**
Assets under administration [1]	**3,541,532**	**27.1%**	**3,782,519**	**30.7%**	**-240,987**	**-6.4%**
Assets under management	**4,702,046**	**35.9%**	**4,561,406**	**37.1%**	**140,641**	**3.1%**
of which: Mutual funds and Sicavs	*1,653,925*	*12.6%*	*1,584,561*	*12.9%*	*69,365*	*4.4%*
Managed portfolios	*784,938*	*6.0%*	*730,153*	*5.9%*	*54,785*	*7.5%*
Bancassurance	*2,263,183*	*17.3%*	*2,246,693*	*18.3%*	*16,490*	*0.7%*
Ordinary customer deposits [1]	**8,243,578**	**63.0%**	**8,343,925**	**67.8%**	**-100,347**	**-1.2%**
Institutional customer deposits [2]	**4,843,803**	**37.0%**	**3,966,177**	**32.2%**	**877,625**	**22.1%**
Indirect deposits [1] [2]	**13,087,381**	**100.0%**	**12,310,102**	**100.0%**	**777,279**	**6.3%**

[1] at 30.06.2016 the volumes are less than for the Bonds issued by the Parent Company and placed with customers of Banca Popolare di Spoleto S.p.A. (Euro 85.9 million) and vice versa (Euro 0.1 million) (at 31.12.2015 Euro 117.6 million and Euro 0.8 million respectively);

[2] institutional customer deposits at 30.06.2016 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.2 billion (Euro 2.2 billion at 31.12.2015).

The chart below shows the breakdown of indirect deposits from ordinary customers by sector at 30 June 2016. 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.

Chart no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2016**

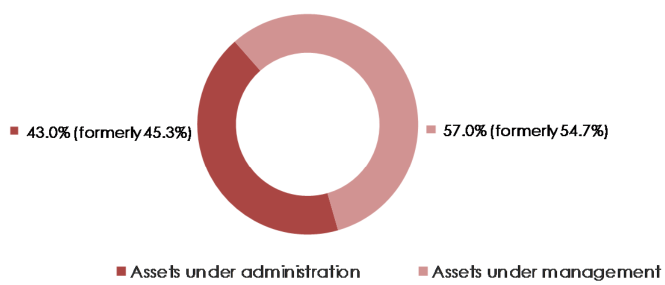
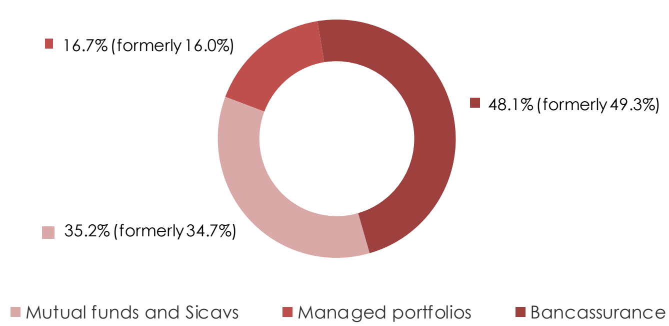


Chart no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2016**



Loans to customers

The total value of loans to ordinary customers at the end of the first half of the year comes to Euro 9.4 billion, substantially in line with the end of 2015 (+0.2%).

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

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

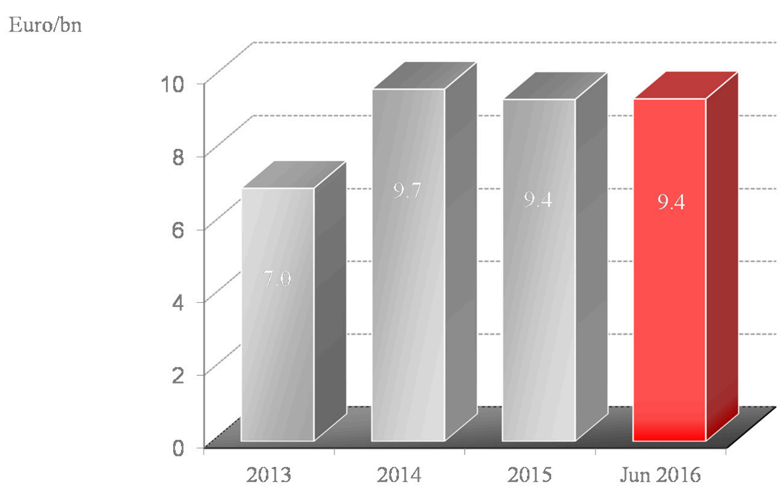


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	30.06.2016	%	31.12.2015	%	Change Amount	Change %
Current accounts	1,829,413	19.5%	1,818,025	19.4%	11,388	0.6%
Repurchase agreements	10,497	0.1%			10,497	
Mortgages and other long-term loans	6,457,109	68.7%	6,311,065	67.2%	146,044	2.3%
Other	1,104,382	11.7%	1,257,221	13.4%	-152,839	-12.2%
Loans to customers	**9,401,401**	**100.0%**	**9,386,311**	**100.0%**	**15,090**	**0.2%**

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

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

Number of customers [1]	**30.06.2016**	**31.12.2015**
First 10	1.47%	1.31%
First 20	2.37%	2.13%
First 30	3.11%	2.85%
First 50	4.26%	3.99%

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

The total amount of net non-performing loans made up of doubtful loans, unlikely to pay, non-performing past due and/or overdrawn exposures, came to Euro 919.5 million at 30 June 2016, net of adjustments of Euro 860.8 million, an increase of Euro 15 million compared with 31 December 2015.

In particular, net doubtful loans totalled Euro 467.1 million, unlikely to pay, Euro 419.3 million and non-performing past due and/or overdrawn exposures Euro 33.1 million.

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

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

% of gross loans [1]	**30.06.2016**	**31.12.2015**
Gross non-performing loans to customers	17.25%	16.79%
of which:		
- gross doubtful loans	11.19%	10.42%
- unlikely to pay, gross	5.69%	5.83%
- non-performing past due and/or overdrawn exposures, gross	0.36%	0.55%
% of net loans	**30.06.2016**	**31.12.2015**
Net non-performing loans to customers	9.78%	9.64%
of which:		
- net doubtful loans	4.97%	4.73%
- unlikely to pay, net	4.46%	4.39%
- non-performing past due and/or overdrawn exposures, net	0.35%	0.52%

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

The main indicators for 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 substantially in line with the end of the previous year.

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

% Coverage of impaired and performing loans [1]	**30.06.2016**	**31.12.2015**
% Coverage of doubtful loans	59.55%	58.48%
% Coverage of doubtful loans, gross of cancellations	64.46%	64.18%
% Total coverage of impaired loans	48.37%	47.50%
% Coverage of impaired loans, gross of cancellations	52.61%	52.23%
% Coverage of performing loans	0.62%	0.67%

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

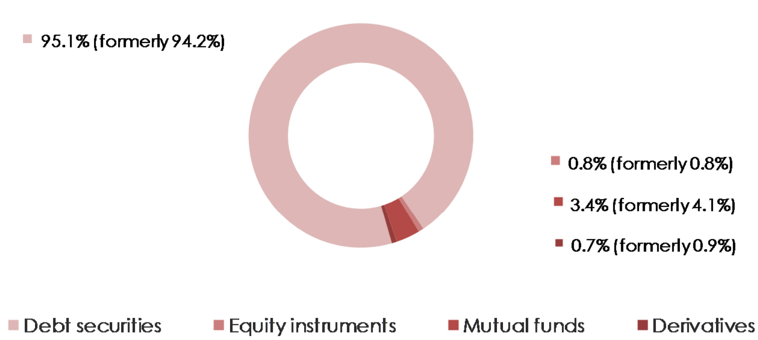
The securities portfolio and interbank position

Securities portfolio

At 30 June 2016, the Group's total financial assets amounted to some Euro 2.1 billion, an increase of some Euro 0.2 billion compared with the end of 2015 (+12.8%).

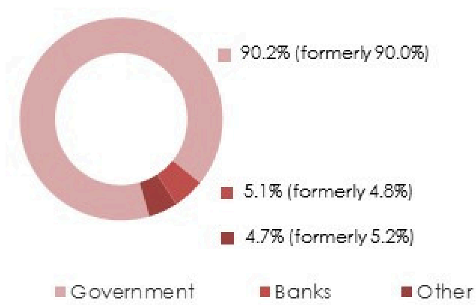
The portfolio breakdown by type of security is indicated in the following graph, which shows that almost all (95.1%) of the investments still consist of debt securities.

Chart no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2016 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the first half of the year, 90.2% relates to government securities, 5.1% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

Chart no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2016 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2016 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		**Italy**	**Spain**	**30.06.2016**
Financial assets available for trading	Nominal value	2,179		2,179
	Book value	1,526		1,526
Financial assets available for sale	Nominal value	1,832,629	75,000	1,907,629
	Book value	1,854,873	79,115	1,933,988
Sovereign debt	**Nominal value**	**1,834,808**	**75,000**	**1,909,808**
	Book value	**1,856,399**	**79,115**	**1,935,514**

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

Amounts in thousands of Euro		Italy	Spain	30.06.2016 Nominal value	30.06.2016 Book value
Financial assets available for trading	up to 1 year	0	0	0	0
	1 to 3 years	0	0	0	0
	3 to 5 years	2	0	2	2
	over 5 years	2,178	0	2,178	1,524
	Total	2,179	0	2,179	1,526
Financial assets available for sale	up to 1 year	339,500		339,500	341,733
	1 to 3 years	427,000		427,000	434,706
	3 to 5 years	241,500	75,000	316,500	322,002
	over 5 years	824,629		824,629	835,546
	Total	1,832,629	75,000	1,907,629	1,933,988
Sovereign debt	**up to 1 year**	**339,500**	**0**	**339,500**	**341,733**
	1 to 3 years	**427,000**	**0**	**427,000**	**434,706**
	3 to 5 years	**241,502**	**75,000**	**316,502**	**322,004**
	over 5 years	**826,807**	**0**	**826,807**	**837,070**
	Total	**1,834,808**	**75,000**	**1,909,808**	**1,935,514**

Net interbank position

The Group's net interbank position at 30 June 2016 is negative for Euro 0.8 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.5 billion. The changes reflect the allocation to Banco Desio Group of Euro 800 million of long-term liquidity by the ECB as part of "TLTRO II", with the simultaneous repayment of the loan obtained from TLTRO I of Euro 550 million.

Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2016, including net profit for the period, amounts to Euro 872.1 million, compared with Euro 870.4 million at the end of 2015.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2016, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.06.2016**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: Net profit (loss) for the period***
Parent Company balances at 30 June 2016	***861,059***	***23,485***
Effect of consolidation of subsidiaries	11,092	6,128
Effect of valuation of associates at net equity	-27	-1,181
Dividends collected during the period	-	-6,143
Consolidated balances at 30 June 2016	**872,124**	**22,289**

Shareholders' equity calculated in accordance with the Bank of Italy's regulatory provisions, defined as Own Funds, with an expected pay out of 40%, amounts at 30 June 2016 to Euro 1,093.3 million (CET1 + AT1 of Euro 879 million + T2 of Euro 214.3 million), a decrease of Euro 12.8 million on the figure at the end of the previous year of Euro 1,106.1 million, mainly due to the reduction in the amount attributable to own funds of subordinated loans due to the amortisation, as well as the increase of the credit limit that can be used for the repurchase of own subordinated loans.

At 30 June 2016, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 10.8% (10.8% at 31 December 2015). The Tier 1 ratio (T1/Risk-weighted assets) was 10.9% (11% at 31 December 2015), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.5% (13.9% at 31 December 2015).

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

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

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

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

The following is a summary of the Group's capital ratios at 30 June 2016 compared with the minimum ratios required by the SREP process.

	Banco Desio Group	**SREP**	***diff.***
CET 1	**10.8%**	**7.0%**	***+3.8%***
TIER 1	**10.9%**	**8.5%**	***+2.4%***
TOTAL CAPITAL RATIO	**13.5%**	**10.5%**	***+3.0%***

Reclassified income statement

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

The presentation criteria for this table are as follows:

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

As shown in the following table, which presents the reclassified income statement with prior period comparatives, the first half of 2016 closed with a Net profit attributable to the Parent Company of Euro 22.3 million, compared with a net profit of Euro 18.7 million reported for the first half of the previous year.

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

Captions *Amounts in thousands of Euro*		30.06.2016	30.06.2015	Change Amount	 %
10+20	Net interest income	119.806	137.681	-17.875	-13,0%
70	Dividends and similar income	974	300	674	224,7%
	Profit (loss) from equity investments in associates	287	669	-382	-57,1%
40+50	Net commission income	74.895	80.185	-5.290	-6,6%
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	6.465	13.007	-6.542	-50,3%
220	Other operating income/expense	8.657	8.922	-266	-3,0%
	Operating income	**211.084**	**240.764**	**-29.681**	**-12,3%**
180 a	Payroll costs	-88.897	-90.317	1.420	-1,6%
180 b	Other administrative costs	-46.583	-43.309	-3.274	7,6%
200+210	Net adjustments to property, plant and equipment and intangible assets	-6.179	-5.981	-199	3,3%
	Operating costs	**-141.659**	**-139.606**	**-2.053**	**1,5%**
	Result of operations	**69.424**	**101.158**	**-31.734**	**-31,4%**
	Gains (Losses) on disposal or repurchase of loans	1.105	-1.001	2.106	n.s.
130 a	Net impairment adjustments to loans and advances	-43.656	-77.044	33.388	-43,3%
130 b	Net impairment adjustments to financial assets available for sale	-142	-133	-9	6,8%
130 d	Net impairment adjustments to other financial assets	33	78	-45	-57,1%
190	Net provisions for risks and charges	-3.325	-821	-2.504	305,0%
	Profit (loss) from operations before tax	**23.440**	**22.237**	**1.203**	**5,4%**
290	Income taxes on current operations	-5.314	-4.219	-1.095	26,0%
	Profit (loss) from operations after tax	**18.125**	**18.018**	**108**	**0,6%**
240+270	Profit (loss) from investments and disposal of investments	4.817	888	3.929	442,5%
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity	176	-788	964	n.s.
	Non-recurring profit (loss) before tax	**4.993**	**100**	**4.893**	**n.s.**
	Income taxes from non-recurring items	-160	250	-410	n.s.
	Non-recurring profit (loss) after tax	**4.834**	**350**	**4.483**	**n.s.**
320	**Net profit (loss) for the period**	**22.959**	**18.368**	**4.591**	**25,0%**
330	Minority interests	-670	342	-1.012	n.s.
340	**Parent Company net profit (loss)**	**22.289**	**18.710**	**3.579**	**19,1%**

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

Table no. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.06.2016**

Captions		As per financial statements	Reclassifications						Reclassified income statement
Amounts in thousands of Euro		30.06.2016	Tax/expense recoveries	Profit (Losses) from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	30.06.2016
10+20	Net interest income	119.806							119.806
70	Dividends and similar income	974							974
	Profit (loss) from equity investments in associates			287					287
40+50	Net commission income	74.895							74.895
80+90+100 +110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	7.570				-1.105			6.465
220	Other operating income/expense	25.063	-17.505		1.098				8.657
	Operating income	**228.308**	**-17.505**	**287**	**1.098**	**-1.105**	**0**	**0**	**211.084**
180 a	Payroll costs	-89.069					172		-88.897
180 b	Other administrative costs	-65.659	17.505				1.571		-46.583
200+210	Net adjustments to property, plant and equipment and intangible assets	-5.081			-1.098				-6.179
	Operating costs	**-159.809**	**17.505**	**0**	**-1.098**	**0**	**1.743**	**0**	**-141.659**
	Result of operations	**68.499**	**0**	**287**	**0**	**-1.105**	**1.743**	**0**	**69.424**
	Gains (Losses) on disposal or repurchase of loans					1.105			1.105
130 a	Net impairment adjustments to loans and advances	-43.447					-209		-43.656
130 b	Net impairment adjustments to financial assets available for sale	-142							-142
130 d	Net impairment adjustments to other financial assets	1.163					-1.130		33
190	Net provisions for risks and charges	-2.744					-581		-3.325
	Profit (loss) from operations before tax	**23.329**	**0**	**287**	**0**	**0**	**-176**	**0**	**23.440**
290	Income taxes on current operations	-5.474						160	-5.314
	Profit (loss) from operations after tax	**17.855**	**0**	**287**	**0**	**0**	**-176**	**160**	**18.125**
240+270	Profit (loss) from investments and disposal of investments	5.104		-287					4.817
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity						176		176
	Non-recurring profit (loss) before tax	**5.104**	**0**	**-287**	**0**	**0**	**176**	**0**	**4.993**
	Income taxes from non-recurring items							-160	-160
	Non-recurring profit (loss) after tax	**5.104**	**0**	**-287**	**0**	**0**	**176**	**-160**	**4.834**
320	**Net profit (loss) for the period**	**22.959**	**0**	**0**	**0**	**0**	**0**	**0**	**22.959**
330	Minority interests	-670							-670
340	**Parent Company net profit (loss)**	**22.289**	**0**	**0**	**0**	**0**	**0**	**0**	**22.289**

Table no. 13 **- RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.06.2015**

	Captions	**As per financial statements**	**Reclassifications**						**Reclassified income statement**
	Amounts in thousands of Euro	**30.06.2015**	Tax/expense recoveries	Profit (Losses) from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**30.06.2015**
10+20	Net interest income	137.681						0	137.681
70	Dividends and similar income	300							300
	Profit (loss) from equity investments in associates			669					669
40+50	Net commission income	80.185							80.185
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	12.006				1.001			13.007
220	Other operating income/expense	25.115	-19.831		1.290		2.349		8.922
	Operating income	**255.287**	**-19.831**	**669**	**1.290**	**1.001**	**2.349**	**0**	**240.764**
180 a	Payroll costs	-90.435					118		-90.317
180 b	Other administrative costs	-61.461	19.831				-1.679		-43.309
200+210	Net adjustments to property, plant and equipment and intangible assets	-4.691			-1.290				-5.981
	Operating costs	**-156.587**	**19.831**	**0**	**-1.290**	**0**	**-1.561**	**0**	**-139.606**
	Result of operations	**98.700**	**0**	**669**	**0**	**1.001**	**788**	**0**	**101.158**
	Gains (Losses) on disposal or repurchase of loans					-1.001			-1.001
130 a	Net impairment adjustments to loans and advances	-76.613					-431		-77.044
130 b	Net impairment adjustments to financial assets available for sale	-133							-133
130 d	Net impairment adjustments to other financial assets	78							78
190	Net provisions for risks and charges	-1.252					431		-821
	Profit (loss) from operations before tax	**20.780**	**0**	**669**	**0**	**0**	**788**	**0**	**22.237**
290	Income taxes on current operations	-3.969						-250	-4.219
	Profit (loss) from operations after tax	**16.811**	**0**	**669**	**0**	**0**	**788**	**-250**	**18.018**
240+270	Profit (loss) from investments and disposal of investments	1.557		-669					888
	Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity						-788		-788
	Non-recurring profit (loss) before tax	**1.557**	**0**	**-669**	**0**	**0**	**-788**	**0**	**100**
	Income taxes from non-recurring items							250	250
	Non-recurring profit (loss) after tax	**1.557**	**0**	**-669**	**0**	**0**	**-788**	**250**	**350**
320	**Net profit (loss) for the period**	**18.368**	**0**	**0**	**0**	**0**	**0**	**0**	**18.368**
330	Minority interests	342							342
340	**Parent Company net profit (loss)**	**18.710**	**0**	**0**	**0**	**0**	**0**	**0**	**18.710**

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

Operating income

Core revenues decreased by Euro 29.7 million on the first half of the prior year, coming in at Euro 211.1 million (-12.3%). The trend is mainly attributable to *net interest income* and *net commission income*, in view of the difficult economic and financial environment and the consequent monetary policy adopted by the ECB, which show reductions of Euro 17.9 million (-13%) and Euro 5.3 million (-6.6%), as well as to *Net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss* which is Euro 6.5 million lower than in the comparative period and to *other operating income/expense* for Euro 0.3 million. On the other hand, there has been an increase in the balance of *dividends and similar income* for Euro 0.7 million.

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 141.7 million and have increased, with respect to the comparative period, by Euro 2.1 million (+1.5%).

Specifically, *other administrative costs* increased by Euro 3.3 million (+7.6%) and comprise around Euro 3.8 million of the ex-ante gross ordinary contribution to the Single Resolution Mechanism (SRM) for 2016, as indicated in the section on "Significant events" and include higher costs for IT service fees of Euro 3.6 million with respect to the comparative period.

Note that the balance of other administrative costs is shown net of Euro 1.6 million for the Parent Company's contribution to the Interbank Fund on behalf of Tercas, recorded under "Other administrative costs" in the financial statements (in the same way that "*Net impairment write-downs/write-backs of financial assets held to maturity*" are shown net of Euro 1.6 million for the repayment of the same contribution recorded in this caption in the financial statements).

Payroll costs have decreased by Euro 1.4 million (-1.6%) and the balance of *net adjustments to property, plant and equipment and intangible assets* come to Euro 6.2 million (+3.3%).

Result of operations

The result of operations at the end of the first half of the year therefore comes to Euro 69.4 million, a decrease of Euro 31.7 million on the same period last year (-31.4%).

Net profit (loss) from operations after tax

The result of operations of Euro 69.4 million leads to a *net profit (loss) from operations after tax* of Euro 18.1 million, 0.6% up compared with Euro 18 million in the comparative period, considering:

- *net impairment adjustments to loans and advances* of Euro 43.7 million, a decrease of Euro 33.4 million with respect to the prior year (-43.3%);
- *gains on disposal or repurchase of loans* of Euro 1.1 million;
- *net impairment adjustments to financial assets available for sale* of Euro 0.1 million;
- *net provisions for risks and charges* of Euro 3.3 million;
- *taxes on income from continuing operations* of Euro 5.3 million.

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

Non-recurring profit after tax

At the end of the first half of the year, *non-recurring profit after tax* amounted to Euro 4.8 million. The balance is determined by the net gain (Euro 4.1 million) following the elimination by the Parent Company of the value of the investment in CPC in liquidation with simultaneous recognition of a receivable from the liquidators of the residual capital of this company, in addition to the reversal of charges for future expenses allocated in the previous year for Euro 1.1 million, as indicated in the relevant section in "Significant events". Moreover, the balance includes the net impact of Euro 0.5 million related to the disposal of the Parent Company's investment in Istifid Spa (which, on the other hand, at individual level posted a net gain of Euro 1 million), the net value of the release for Euro 0.5 million of provisions for risks and charges accrued in previous years (reclassified from *net provisions for risks and charges*), the net write-down of Euro 0.3 million related to the expected future commitments for participation in the "Voluntary Scheme" (reclassified from *net impairment adjustments to other financial transactions*) as well as the impact of the IAS discounting on the Solidarity Fund and voluntary severance bonuses of Euro 0.1 million.
The positive balance shown in the comparative period of Euro 0.4 million refers to the share of profit for the period of the investment in Istifid Spa for Euro 0.9 million, partly offset by the net impact of Euro 0.5 million relating to consulting fees for the planned acquisition and integration of Banca Popolare di Spoleto.

Parent Company net profit/(loss)

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests, leads to the *Parent Company net profit for the period* ended 30 June 2016 of Euro 22.3 million, an increase of 19.1% compared with a net result for the comparative period of Euro 18.7 million.

Other information

Ratings

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

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

and left the following ratings unchanged:

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

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

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

Transactions with related parties

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

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

Operating performance at the end of the first half of the current year, reflecting the trend in interest rates and, more generally, in the banking sector, also given a slowdown in the amount of loan adjustments, suggests that the results for the current year will not be too far from those achieved in 2015, providing the macroeconomic scenario does not reveal significant unexpected events of a critical nature.

As regards the principal risks and uncertainties, note that this Consolidated interim financial report at 30 June 2016 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

Interim condensed consolidated financial statements at 30 June 2016

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	30.06.2016	31.12.2015	Change Amount	Change %
10 Cash and cash equiv alents	46.344	62.306	-15.962	-25,6%
20 Financial assets av ailable for trading	16.414	16.038	376	2,3%
40 Financial assets av ailable for sale	2.124.728	1.881.131	243.597	12,9%
60 Due from banks	230.320	292.992	-62.672	-21,4%
70 Loans to customers	9.401.401	9.386.311	15.090	0,2%
80 Hedging deriv ativ es	3.289	4.601	-1.312	-28,5%
90 Adjustment to financial assets with generic hedge (+/-)	2.209	1.408	801	56,9%
100 Equity inv estments	13.657	13.261	396	3,0%
120 Property, plant and equipment	182.525	184.983	-2.458	-1,3%
130 Intangible assets	17.459	18.207	-748	-4,1%
of which: goodwill	*15.322*	*15.322*		*0,0%*
140 Tax assets	215.715	224.266	-8.551	-3,8%
a) current	*20.505*	*29.105*	*-8.600*	*-29,5%*
b) deferred	*195.210*	*195.161*	*49*	*0,0%*
- of which Law 214/2011	*170.846*	*173.678*	*-2.832*	*-1,6%*
150 Non-current assets and disposal groups held for sale		4.967	-4.967	-100,0%
160 Other assets	244.527	157.659	86.868	55,1%
Total assets	**12.498.588**	**12.248.130**	**250.458**	**2,0%**

LIABILITIES

Liabilities and shareholders' equity			Change	
	30.06.2016	**31.12.2015**	**Amount**	**%**
10 Due to banks	993.963	753.115	240.848	32,0%
20 Due to customers	8.451.271	8.244.110	207.161	2,5%
30 Debt securities in issue	1.553.499	1.918.104	-364.605	-19,0%
40 Financial liabilities held for trading	6.636	5.148	1.488	28,9%
50 Financial liabilities designated at fair value through profit and loss	20.824	22.828	-2.004	-8,8%
60 Hedging derivatives	8.805	24.758	-15.953	-64,4%
80 Tax liabilities	29.654	31.616	-1.962	-6,2%
a) current	*0*	*75*	*-75*	-100,0%
b) deferred	*29.654*	*31.541*	*-1.887*	*-6,0%*
90 Liabilities associated with groups of assets held for sale	0	754	-754	*-100,0%*
100 Other liabilities	437.080	249.205	187.875	75,4%
110 Provision for termination indemnities	30.909	29.712	1.197	4,0%
120 Provisions for risks and charges	42.282	46.725	-4.443	-9,5%
b) other provisions	*42.282*	*46.725*	*-4.443*	*-9,5%*
140 Valuation reserves	17.804	21.767	-3.963	-18,2%
170 Reserves	748.181	726.660	21.521	3,0%
180 Share premium reserve	16.145	16.145		0,0%
190 Share capital	67.705	67.705		0,0%
210 Minority interests (+/-)	51.541	51.606	-65	-0,1%
220 Net profit (loss) for the period (+/-)	22.289	38.172	-15.883	-41,6%
Total liabilities and shareholders' equity	**12.498.588**	**12.248.130**	**250.458**	**2,0%**

CONSOLIDATED INCOME STATEMENT

Captions	30.06.2016	30.06.2015	Change Amount	%
10 Interest and similar income	158.453	191.510	(33.057)	-17,3%
20 Interest and similar expense	(38.647)	(53.829)	15.182	-28,2%
30 **Net interest income**	**119.806**	**137.681**	(17.875)	-13,0%
40 Commission income	84.999	91.318	(6.319)	-6,9%
50 Commission expense	(10.104)	(11.133)	1.029	-9,2%
60 **Net commission income**	**74.895**	**80.185**	(5.290)	-6,6%
70 Dividends and similar income	974	300	674	224,7%
80 Net trading income	622	3.532	(2.910)	-82,4%
90 Net hedging gains (losses)	(758)	(1.593)	835	-52,4%
100 Gains (losses) on disposal or repurchase of:	7.754	10.188	(2.434)	-23,9%
a) loans	*1.105*	*(1.001)*	*2.106*	*n.s.*
b) financial assets available for sale	*7.561*	*13.800*	*(6.239)*	*-45,2%*
d) financial liabilities	*(912)*	*(2.611)*	*1.699*	*-65,1%*
110 Net results on financial assets and liabilities designated at fair value	(48)	(121)	73	-60,3%
120 **Net interest and other banking income**	**203.245**	**230.172**	(26.927)	-11,7%
130 Net impairment adjustments to:	(42.426)	(76.668)	34.242	-44,7%
a) loans	*(43.447)*	*(76.613)*	*33.166*	*-43,3%*
b) financial assets available for sale	*(142)*	*(133)*	*(9)*	
d) other financial assets	*1.163*	*78*	*1.085*	*n.s.*
140 **Net profit from financial activities**	**160.819**	**153.504**	7.315	4,8%
170 **Net income from financial and insurance activities**	**160.819**	**153.504**	7.315	4,8%
180 Administrative costs	(154.728)	(151.896)	(2.832)	1,9%
a) payroll costs	*(89.069)*	*(90.435)*	*1.366*	*-1,5%*
b) other administrative costs	*(65.659)*	*(61.461)*	*(4.198)*	*6,8%*
190 Net provisions for risks and charges	(2.744)	(1.252)	(1.492)	119,2%
200 Net adjustments to property, plant and equipment	(4.158)	(4.039)	(119)	2,9%
210 Net adjustments to intangible assets	(923)	(652)	(271)	41,6%
220 Other operating charges/income	25.063	25.115	(52)	-0,2%
230 **Operating costs**	**(137.490)**	**(132.724)**	(4.766)	3,6%
240 Profit (loss) from equity investments	5.104	1.557	3.547	n.s.
280 **Profit (loss) from current operations before tax**	**28.433**	**22.337**	6.096	27,3%
290 Income taxes on current operations	(5.474)	(3.969)	(1.505)	37,9%
300 **Profit (loss) from current operations after tax**	**22.959**	**18.368**	4.591	25,0%
320 **Net profit (loss) for the period**	**22.959**	**18.368**	4.591	25,0%
330 Net profit (loss) pertaining to minority interests	(670)	342	(1.012)	n.s.
340 **Parent Company net profit (loss)**	**22.289**	**18.710**	3.579	19,1%

	30.06.2016	**30.06.2015**
Basic earnings per share (Euro)	0.17	0.14
Diluted earnings per share (Euro)	0.17	0.14

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.06.2016	30.06.2015
10.	**Net profit (loss) for the period**	**22.959**	**18.368**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Actuarial gains (losses) on defined-benefit pension plans	(1.078)	1.321
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	-	8.166
90.	Cash-flow hedges	(2.893)	1.184
100.	Financial assets available for sale	(158)	(16.587)
110.	Non-current assets and disposal groups held for sale	-	-
120.	Portion of the valuation reserves of the equity investments carried at equity	(4)	(196)
130.	**Total other elements of income (net of income taxes)**	**(4.133)**	**(6.112)**
140.	**Total comprehensive income (Captions 10+130)**	**18.826**	**12.256**
150.	Total comprehensive income pertaining to minority interest	(500)	105
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**18.326**	**12.361**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2016

	Balance at 31.12.2015	Changes in opening balances	Balance at 01.01.2016	Allocation of prior year results		Changes during the year									Comprehensive income at 30.06.2016	Group shareholders' equity at 30.06.2016	Minority interests at 30.06.2016
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments			
Share capital:																
a) ordinary shares	118.578		118.578										3		60.840	57.741
b) other shares	6.865		6.865												6.865	
Share premium reserv e	31.569		31.569										1		16.145	15.425
Reserv es:																
a) from profits	683.485		683.485	26.009		(632)									734.385	(25.523)
b) other	22.611		22.611			(4.999)									13.796	3.816
Valuation reserv es:	21.400		21.400											(4.133)	17.804	(537)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	37.598		37.598	(26.009)	(11.589)									22.959	22.289	670
Group shareholders' equity	**870.449**		**870.449**		**(11.589)**	**(5.062)**								**18.326**	**872.124**	
Minority interests	**51.606**		**51.606**			**(569)**							**4**	**500**		**51.541**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2015

	Balance at 31.12.2014	Changes in opening balances	Balance at 01.01.2015	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2015	Minority interests at 30.06.2015
							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 30.06.2015		
Share capital:																
a) ordinary shares	121.161		121.161										(2.617)		60.840	57.704
b) other shares	6.865		6.865												6.865	
Share premium reserv e	38.813		38.813										(7.251)		16.145	15.417
Reserv es:																
a) from profits	642.801		642.801	29.423									9.227		705.564	(24.113)
b) other	23.927		23.927									140			20.482	3.585
Valuation reserv es:	27.135		27.135											(6.112)	21.626	(603)
Equity instruments																
Treasury shares	(75)		(75)	24												(51)
Net profit (loss) for the period	39.427		39.427	(29.423)	(10.004)									18.368	18.710	(342)
Group shareholders' equity	**845.627**		**845.627**		**(10.004)**							**140**	**2.108**	**12.361**	**850.232**	
Minority interests	**54.427**		**54.427**	**24**									**(2.749)**	**(105)**		**51.597**

Changes in equity investments: the column shows the effects of the change in the investment held by the Parent Company in the subsidiary Banca Popolare di Spoleto on completion of the Contribution by Banco Desio to BPS, effective for legal purposes from 1 April 2015.

CONSOLIDATED CASH FLOW STATEMENT

	30.06.2016	30.06.2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**109,013**	**126,334**
- interest received (+)	156,645	191,198
- interest paid (-)	(38,087)	(54,220)
- dividends and similar income (+)	974	300
- net commission income (+/-)	75,354	80,940
- payroll costs (-)	(86,736)	(87,295)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(54,289)	(54,466)
- other revenues (+)	60,787	53,846
- taxation (-)	(5,635)	(3,969)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(338,978)**	**343,819**
- financial assets held for trading	(232)	5,393
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	(239,991)	171,751
- loans to customers	(87,516)	70,312
- due from banks: on demand	88,326	(8,939)
- due from banks: other receivables	(25,628)	99,452
- other assets	(73,937)	5,850
3. Cash generated (absorbed) by financial liabilities	**225,906**	**(468,514)**
- due to banks: on demand	7,381	(17,578)
- due to banks: other debts	233,471	(271,807)
- due to customers	207,257	140,648
- debt securities in issue	(362,498)	(477,829)
- financial liabilities held for trading	574	1,308
- financial liabilities designated at fair value through profit and loss	(3,788)	(1,706)
- other liabilities	143,509	158,450
Net cash generated (absorbed) by operating activities (A)	**(4,059)**	**1,639**
B. INVESTING ACTIVITIES		
1. Cash generated by	**3**	**41**
- sale of equity investments		
- dividends collected on equity investments		
- sale of financial assets held to maturity		
- sale of property, plant and equipment	3	41
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(1,878)**	**(3,420)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property, plant and equipment	(1,703)	(3,072)
- purchase of intangible assets	(175)	(348)
- purchase of lines of business		
Net cash generated (absorbed) by investing activities (B)	**(1,875)**	**(3,379)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,589)	(8,830)
Net cash generated (absorbed) by financing activities (C)	**(11,589)**	**(8,830)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(17,523)**	**(10,570)**

RECONCILIATION

	30.06.2016	30.06.2015
Cash and cash equivalents at beginning of period	**62,306**	**62,890**
Net increase (decrease) in cash and cash equivalents	(17,523)	(10,570)
Cash and cash equivalents: effect of change in exchange rates	1,561	2,119
Cash and cash equivalents at end of period	**46,344**	**54,439**

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

	Captions	2nd quarter 2016	1st quarter 2016	2nd quarter 2015	1st quarter 2015
10	Interest and similar income	77.680	80.773	93.691	97.819
20	Interest and similar expense	(18.118)	(20.529)	(25.142)	(28.687)
30	**Net interest income**	**59.562**	**60.244**	**68.549**	**69.132**
40	Commission income	43.416	41.583	46.321	44.997
50	Commission expense	(5.201)	(4.903)	(5.953)	(5.180)
60	**Net commission income**	**38.215**	**36.680**	**40.368**	**39.817**
70	Dividends and similar income	974	-	300	-
80	Net trading income	200	422	1.410	2.122
90	Net hedging gains (losses)	(141)	(617)	135	(1.728)
100	Gains (losses) on disposal or repurchase of:	2.535	5.219	630	9.558
	a) loans	*(6)*	*1.111*	*(814)*	*(187)*
	b) financial assets available for sale	*2.896*	*4.665*	*3.561*	*10.239*
	c) financial assets held to maturity	*-*	*-*	*(22)*	*22*
	d) financial liabilities	*(355)*	*(557)*	*(2.095)*	*(516)*
110	Net results on financial assets and liabilities designated at fair value	58	(106)	132	(253)
120	**Net interest and other banking income**	**101.403**	**101.842**	**111.524**	**118.648**
130	Net impairment adjustments to:	(21.697)	(20.729)	(41.065)	(35.603)
	a) loans	*(22.934)*	*(20.513)*	*(40.896)*	*(35.717)*
	b) financial assets available for sale	(20)	(122)	*(133)*	-
	d) other financial assets	1.257	(94)	(36)	114
140	**Net profit from financial activities**	**79.706**	**81.113**	**70.459**	**83.045**
170	**Net profit from financial and insurance activities**	**79.706**	**81.113**	**70.459**	**83.045**
180	Administrative costs:	(76.517)	(78.211)	(78.287)	(73.609)
	a) payroll costs	*(44.585)*	*(44.484)*	*(45.563)*	*(44.872)*
	b) other administrative costs	*(31.932)*	*(33.727)*	*(32.724)*	*(28.737)*
190	Net provisions for risks and charges	(1.226)	(1.518)	(796)	(456)
200	Net adjustments to property, plant and equipment	(2.100)	(2.058)	(2.011)	(2.028)
210	Net adjustments to intangible assets	(458)	(465)	(325)	(327)
220	Other operating charges/income	12.323	12.739	12.355	12.760
230	**Operating costs**	**(67.977)**	**(69.513)**	**(69.064)**	**(63.660)**
240	Profit (loss) from equity investments	(117)	5.221	1.129	428
280	**Profit (loss) from current operations before tax**	**11.612**	**16.821**	**2.524**	**19.813**
290	Income taxes on current operations	(1.780)	(3.694)	2.592	(6.561)
300	**Profit (loss) from current operations after tax**	**9.832**	**13.127**	**5.116**	**13.252**
310	Profit (loss) after tax on non-current assets held for sale	-	-	-	-
320	**Net profit (loss) for the period**	**9.832**	**13.127**	**5.116**	**13.252**
330	Net profit (loss) pertaining to minority interests	(241)	(429)	(240)	582
340	**Parent Company net profit (loss)**	**9.591**	**12.698**	**4.876**	**13.834**

EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

ACCOUNTING POLICIES

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

These Interim condensed consolidated financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and for the purposes of determining own funds, in accordance with the applicable IAS/IFRS issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) applicable as of 30 June 2016. In particular, the content of the condensed interim financial statements complies with IAS 34 – Interim financial statements, as well as with the enabling regulations for art. 9 of Legislative Decree 38/2005 and the Bank of Italy Circular 262 of 22 December 2005 as updated on 15 December 2015.

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

- Amendment to IAS 1 – *Presentation of financial statements* (published by the IASB on 18 December 2014), which provides limited amendments to IAS 1 aimed at clarifying certain disclosure requirements, such as:
    a. Materiality and aggregation: it is clarified that an entity must not hide information by aggregating or disaggregating it and that the considerations relating to materiality apply to the financial statements, explanatory notes and specific disclosure requirements of IFRS;
    b. Statement of financial position and statement of comprehensive income: it is clarified that the list of items specified by IAS 1 for these tables can be disaggregated and aggregated as appropriate;
    c. Presentation of items of Other Comprehensive Income ("OCI"): it is clarified that the share of OCI of associates and joint ventures accounted for using the equity method should be presented in aggregate under a single item;
    d. Explanatory notes: it is clarified that entities have flexibility in defining the structure of the explanatory notes and guidelines are provided on how to set up the notes in a systematic way.
- Amendment to IAS 27 – *Separate financial statements* (published by the IASB on 12 August 2014) which introduces the option of using the equity method for the valuation of investments in subsidiaries, jointly controlled entities and associate in the separate financial statements of an entity.

Basis of preparation

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

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

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

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

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

In particular, the financial statements used for the preparation of the interim condensed consolidated financial statements are those which have been prepared by the subsidiaries for the period ended 30 June 2016, adjusted, where necessary, to comply with the relevant IAS/IFRS adopted by the Parent Company.

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

Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.701
Fides S.p.A.	Rome	1	Banco Desio	100.000
Rovere S.A. in liquidation	Luxembourg	1	Banco Desio	80.000

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

The following changes have taken place compared with the situation at 31 December 2015:

- Elimination of Credito Privato Commerciale S.A. in liquidation as a result of the *loss of control*, in accordance with IFRS 10 - Consolidated Financial Statements, by the Parent Company, which ceases to "*be exposed to variable yields, hold rights in such yields and affect those yields*", having substantially completed the formalities involved in the company's liquidation. On 29 June 2016, the Swiss Supervisory Authority (FINMA) issued an order saying that the company was no longer subject to banking supervision. After that, the liquidation procedure continues for the sole purpose of cancelling it from the companies register.
- Elimination of the SPV Spoleto Mortgages S.r.l., whose separate assets had been formed through the sale of performing loans by Banca Popolare di Spoleto S.p.A., following the early termination of the securitisation on 25 February 2016, with which Banca Popolare di Spoleto repurchased its portfolio of outstanding receivables and the SPV repaid the Notes it had issued in full.

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).

In view of the recent liquidation of Rovere S.A. in liquidation resulting in preparatory activities for the definition of the terms and timing of the procedure, in July 2016 the Liquidator defined the company's liquidation plan; the investment was therefore maintained within the scope of consolidation at 30 June 2016 in accordance with IFRS 10.

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.

The scope of consolidation at 31 December 2015 also included an SPV for which voting rights were not determining factors for the assessment of control. However, the requirements for effective control had been met, given that the Group had contractual rights that enable it to direct the relevant activities of the entity and it had the ability to influence the variability of the returns; as already mentioned in the previous paragraph, on 25 February 2016, Banca Popolare di Spoleto repurchased the residual separate assets; therefore, at 30 June 2016, this entity no longer falls within the scope of consolidation because of the early termination of the securitisation.

3. Investments in subsidiaries with significant minority interests

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

Name	Minority interests %	Dividends paid to third parties
Banca Popolare di Spoleto S.p.A.	18.299	350
Rovere S.A. in liquidation	20.000	33

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.	4,110,175	24,188	405,013	51,570	9,660	259,790	48,564	77,405	(49,467)	8,075	7,466	-	7,466	(2,043)	5,423
Rovere S.A. in liquidation	1,123					875	1	96	275	371	340	-	340	-	340

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 Rovere 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

IFRS 9 - Financial instruments

As mentioned in the disclosure of the consolidated financial statements at 31 December 2015, on 24 July 2014, the IASB issued IFRS 9 – Financial Instruments, thus completing the reform of IAS 39 which was split into three phases: "Classification and measurement", "Impairment" and "Hedge accounting". The new standard has to be applied to financial statements from 1 January 2018 onwards; however, this principle still has to be approved by the European Commission. The European Financial Reporting Advisory Group (EFRAG) has already issued a favourable opinion dated 15 September 2015.

The standard introduces the following requirements for the classification and measurement of financial assets:

a) The business model adopted for the management of financial assets;
b) The characteristics of their contractual cash flows.

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

I. Amortised Cost (AC);
II. Fair Value with allocation of changes in the other components of the Statement of Comprehensive Income (FVOCI);
III. Fair Value through profit or loss (FVTPL).

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

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

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies. Among other actions, the standard expands the scope of risks for which hedge accounting of non-financial items can be applied, removes the compulsory quantitative effectiveness tests and no longer requires retrospective evaluation of the effectiveness of the hedge.
With reference to the first application of the new accounting standards, the Bank is currently carrying out an analysis of the interventions to be made on the procedures and IT/management systems with the assistance of the provider of outsourced IT procedures (Cedacri). The Group has also defined the activities that will be developed in the second half of this year and during the course of next year, also with the help of an external consultant with proven experience and professional skill.

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

The preparation of the condensed consolidated financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.
The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.
The main areas in which the use of subjective estimates and assessments is applied are:

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

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

Comparability of interim condensed consolidated financial statements

In accordance with IAS 34, the interim consolidated financial statements have to include the financial statements at 30 June 2016 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.

In this regard, it should be noted that the comparative figures in the consolidated balance sheet include the reclassification required by IFRS 5 relating to the assets and liabilities of Rovere S.A. in liquidation, unlike the consolidated balances at 30 June 2016, which include the balance sheet of Rovere in the individual items, as there were no longer the requirements for classification as non-current assets.

Domestic tax group election

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

Audit

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

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.

For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

Financial assets held for trading

Recognition

The initial recognition of financial assets held for trading takes place at the settlement date for debt securities and equities and at the execution date for derivatives.

Financial assets held for trading are designated on initial recognition as assets at fair value through profit and loss, corresponding to the price paid, without taking account of transaction costs or income that are recognised directly in the income statement.

Classification

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

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date (fair value level 1).

Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by using valuation techniques (*fair value level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).

Derecognition

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

Recognition of items affecting the income statement

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

Financial assets available for sale

Recognition

The initial recognition of financial assets available for sale takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the instrument concerned.

If, for those cases permitted by the applicable accounting standards, the recognition takes place upon a reclassification of financial assets held to maturity, the amount recognised is represented by the fair value at the time of transfer.

Classification

"Financial assets available for sale" include financial assets - derivatives excluded - not classified as Loans, Assets held for trading or as Assets held to maturity.

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

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

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

Measurement
Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.
For the purposes of determining fair value, the same criteria as for assets held for trading are applied.
For unquoted financial assets, inclusive of non-controlling interests, the fair value measurement is carried out using valuation techniques, that is, when a reliable determination of fair value is not possible, the assets in question are measured at cost (*Level 3*).

Mutual funds that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*Level 1*).
Mutual funds that are not traded in an active market (particularly closed-end funds and hedge funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidability of the units (*Level 3*).
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39, paragraph 61, for debt securities, listed and unlisted equities and for Mutual funds traded in an active market, "significant" (higher than 25%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators. For Mutual funds not traded in an active market and equity investments in investees other than subsidiaries or associates, "significant" (higher than 30%) or "extended" (more than 60 months) write-downs are considered to be objective impairment indicators.
In accordance with internal policy, pre-established thresholds being exceeded is considered to be impairment, with the consequent recognition in the income statement of the accumulated impairment loss incurred since the date of initial recognition.
The amount of the impairment is the difference between the asset's book value and its recoverable amount.

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

another category.

Recognition of items affecting the income statement

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

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

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

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

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

Loans and receivables

Recognition

Loans and receivables are recognised at the contract date, which is usually equal to the date the loan is granted.

If the two dates do not coincide, upon the execution of the contract, a commitment is assumed to provide funds that terminates on the date the loan is granted. Loans and receivables are recognised at fair value, which normally equates to the amount granted, including any costs or income directly attributable to the loan and which are determinable at the outset of the transaction.

If the recognition in this category takes place as a result of a reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset at the date of reclassification represents the new amortised cost of the asset.

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

Classification

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.

They also include receivables from finance lease transactions, repurchase agreements with an obligation to resell and receivables sold to the SPV which do not meet the requirements of IAS 39 for derecognition (please see the section entitled "Securitisations" in "Other information" in this part of the report entitled "Main captions in the financial statements").
Transfers from "Financial assets available for sale" and "Financial assets held for trading" to "Loans and receivables" are only allowed in particular circumstances, as specified in IAS 39.

Measurement
Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.
The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.
The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.

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

The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.
Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.
This includes the various categories of non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.
The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done by applying the criteria laid down in the Lending Policies, taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.
Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.
Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The valuation is analytical in nature and takes into

account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.
Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.
The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.
The securities held in the "Loans and receivables" portfolio are evaluated periodically to determine whether there is objective evidence of any impairment. According to the provisions of paragraph AG84 of IAS 39, such impairment is measured as the difference between the carrying amount of the asset and the fair value of the instrument measured using an observable market price.
The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.
The fair value is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2).

The credit exposures subject to fair value hedging after initial recognition are measured at fair value. If the hedging relationship is ineffective, the loans are again valued at amortised cost. The difference between the fair value and amortised cost recognized on the last date on which the hedging relationship was effective is recognised in the income statement and amortised over the residual life of the loan.

Derecognition

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

Recognition of items affecting the income statement

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and

ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.
Interest on arrears is only recorded in the income statement when collected.
The interest that accrues over time as an effect of discounting non-performing loans is recognised in the income statement under write-backs.
The effects of analytical and general assessments are recognised in the income statement.
The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.
In the case of loans acquired through business combinations, any higher value recorded in the consolidated financial statements on initial recognition is released through the income statement over the life of the loan, based on the repayment plan, or in full in the year that the loan is repaid.
Loans subject to fair value hedges, are measured at fair value and changes in value are recognised in the income statement under "net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument.

Hedging transactions

Recognition
Upon initial recognition of derivatives, inclusive of hedging instruments, they are measured at fair value.
The recognition of hedging transactions assumes:

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

Classification
Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.
The type of hedge used may be:

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

the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Measurement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (fair value Level 2 or Level 3 - based on the significance of unobservable inputs used in the valuation models); with specific reference to OTC hedging derivatives, the model applied is the Credit Value Adjustment and Debit Value Adjustment.

A hedging transaction is defined as effective if the changes in fair value (or future cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.

Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.

If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

Recognition of items affecting the income statement – Fair value hedges

The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement. This provision applies even when the hedged item is measured at cost.

Such offsetting is booked through the recognition in the income statement under item 90 "Net hedging gains (losses)" of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.

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

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

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

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

Derecognition

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.
If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

Equity investments

Recognition
Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Classification
Equity investments are classified as investments in associates in accordance with IAS 28, or as investments in companies subject to joint control, as defined in IFRS 11. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

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

If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related asset is written back and the amount of the write-back is recognised in the income statement.

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Recognition

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

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

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

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

Classification

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

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

Measurement

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

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

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Recognition

Goodwill is the positive difference between the purchase cost and the fair value of assets and liabilities acquired in business combinations. It is booked to intangible assets when it is actually representative of future economic benefits generated by the assets acquired.

Other intangible assets are stated at cost and are only recognised if they meet the requirements of independent identifiability and separation from goodwill, probable realisation of future economic benefits and reliable measurability of cost.

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs.

Leasehold improvements are booked to Other assets.

Measurement

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

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

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually

to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose.
The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.
On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.
As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).
As recommended by the Italian Valuation Standard Board, in the event that Banco Desio's market capitalisation (ordinary shares and savings shares) has remained below its consolidated shareholders' equity over the previous six months, a level II impairment must also be performed, with the sole objective of verifying whether there has been any impairment of the Legal entity, Banco Desio Group.

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Non-current assets and disposal groups held for sale

Recognition

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

Classification

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

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

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

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, non-current assets and disposal groups held for sale are valued at the lower of book value and fair value less costs to sell. The related income and expenses (net of taxes) are presented in the income statement under a separate caption 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.

Provision for termination indemnities

Measurement

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

Recognition of items affecting the income statement

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

Provisions for risks and charges - Other provisions

Classification

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

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

Only when a business combination is being carried out in accordance with IFRS 3, the buyer can recognise

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

Measurement

In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.

The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

The effects arising from the passage of time for the discounting of future cash flows are recorded in the income statement under provisions.

Debts and debt securities in issue

Recognition

Recognition of these financial liabilities takes place on the date of the contract, which normally coincides with the receipt of the amounts collected or on issue of the debt securities. When such financial liabilities are taken on as the result of a business combination, initial recognition in the consolidated financial statements is carried out at the acquisition date. In any case, the first recognition is at fair value of the liability, usually equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual operation or issue.

Classification

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

Measurement and recognition of items affecting the income statement

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

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

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

If the hedging relationship is interrupted, the difference between the fair value determined at the

discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.

Securities issued are shown net of any repurchases.

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

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

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

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

Financial liabilities held for trading

Recognition and classification

Liabilities held for trading are recorded at fair value.

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

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

Measurement and recognition of items affecting the income statement

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

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

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

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

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

Classification

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

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

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

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

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

Measurement and recognition of items affecting the income statement

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

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

Derecognition

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

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

Currency transactions

Recognition

Currency transactions are recorded in accordance with IAS 21 - Effects of changes in foreign exchange rates at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

Measurement

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

- monetary items: conversion at the exchange rate ruling at the balance sheet date;

- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;

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

Recognition of items affecting the income statement

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

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

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

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements. In particular :

  a) hedging assets and liabilities that generate interest;

  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);

c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.

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

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;

- dividends are recognised in the income statement when distribution has been approved;

- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;

- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (*level 1 and level 2*). If these values cannot easily be determined or have a reduced level of liquidity (*level 3*), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;

- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;

- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

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

Note that the contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS) are recognised in the income statement under caption "180 b) Other administrative costs", taking into account the recommendations of IFRIC 21 and the Bank of Italy communication of 19 January 2016. In particular, the contribution (DGS) is accounted for when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the

Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

Finance leases

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

Securitisations

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

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

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

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

[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.

INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

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

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

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

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

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

The following table shows the book values and fair values at 30 June 2016 of the residual financial instruments that were reclassified in 2008, as well as the valuation and other results (interest and gains/losses on disposals) that such instruments would have generated for Banca Popolare di Spoleto in the reference period if they had not been transferred ("Income components in the absence of transfer"). The columns "Income components recorded during the period" show the valuation and other results that Banca Popolare di Spoleto actually recorded on such instruments during the reporting period.

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

Type of financial instrument	Source portfolio	Destination portfolio	Book value at 30.06.2016	Fair value at 30.06.2016	Income components in the absence of transfer (before tax)		Income components recorded during the period (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	HFT	L&R - banks	6,292	6,291	18	49		72
Debt securities	HFT	L&R - customers	0	0	0	0		0
Debt securities	AFS	L&R - banks	2,774	3,055	(5)	47		56
Debt securities	AFS	L&R - customers	1,093	1,161	37	14		14
Debt securities	HFT	AFS	0	0	0	0		0
Equity instruments	HFT	AFS	0	0	0	0		0
Total			**10,159**	**10,506**	**50**	**109**	**0**	**142**

INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

The fair value hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (*Level 1* inputs) and the lowest priority to unobservable inputs (*Level 2 and 3* inputs). The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

Fair value measurement with use of Level 1 inputs

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

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

The fundamental elements are the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

For the purpose of the determination of fair value:

- medium to long term performing loans are measured by discounting future cash flows using a risk-free discount rate that is weighted based on credit risk; non-performing loans are measured at book value, which represents a reasonable approximation of their fair value (*Level 3*);
- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value *(Level 3)*;
- bonds issued by Group banks are measured by discounting future cash flows and the application of a credit spread (*Level 2*);

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

Process and sensitivity of valuations

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

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

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

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

Fair value hierarchy

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

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

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

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

Other information

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

Quantitative information

Fair value hierarchy

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

Financial assets/liabilities designated at fair value	30.06.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	1,869	12,499	2,046	14	13,558	2,466
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,908,918	188,721	27,089	1,695,096	162,184	23,851
4. Hedging derivatives		3,289			4,601	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,910,787**	**204,509**	**29,135**	**1,695,110**	**180,343**	**26,317**
1. Financial liabilities held for trading		5,099	1,537		3,132	2,016
2. Financial liabilities designated at fair		20,824			22,828	
3. Hedging derivatives		8,805			24,758	
Total		**34,728**	**1,537**		**50,718**	**2,016**

Key

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

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (1.36% compared with 1.38% at end-2015).

These investments consist primarily of non-controlling interests classified as "Financial assets available for sale".

At 30 June 2016, the impact of applying the Credit Value Adjustment to derivatives with a positive mark-to-market amounts to 4 thousand euro (relating to trading derivatives); as regards instruments with a negative mark-to-market adjustment, there is no impact from applying the Debit Value Adjustment.

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

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**2,466**		**23,851**			
2. Increases	**1,898**		**5,496**			
2.1. Purchases	250		5,472			
2.2. Profits posted to:						
2.2.1. Income statement	1,648					
of which: Capital gains	*1,648*					
2.2.2. Shareholders' equity						
2.3. Transfers from other levels						
2.4. Other increases			24			
3. Decreases	**2,318**		**2,258**			
3.1. Sales	10		6			
3.2. Redemptions	55					
3.3. Losses posted to:						
3.3.1. Income statement	2,067					
of which: capital losses	*2,066*					
3.3.2. Shareholders' equity			2,203			
3.4. Transfers to other levels	186					
3.5. Other decreases			49			
4. Closing balance	**2,046**		**27,089**			

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

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance	**2,016**		
2. Increases	**1,537**		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	1,537		
- of which: capital losses	*1,537*		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	**2,016**		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,016		
- of which: capital gains	*2,016*		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**1,537**		

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

Financial assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity								
2. Due from banks	230,320		10,172	220,079	292,992		10,138	283,019
3. Loans to customers	9,401,401		5,355,900	4,346,499	9,386,311		4,755,853	4,867,751
4. Investment property	1,162			1,027	1,171			1,047
5. Non-current assets and disposal groups held for sale					4,967			
Total	**9,632,883**		**5,366,072**	**4,567,605**	**9,685,441**		**4,765,991**	**5,151,817**
1. Due to banks	993,963			993,963	753,115			753,115
2. Due to customers	8,451,271			8,451,271	8,244,110			8,244,110
3. Debt securities in issue	1,553,499		1,491,783	49,025	1,918,104		1,742,261	167,748
4. Liabilities associated with assets held for sale					754			
Total	**10,998,733**		**1,491,783**	**9,494,259**	**10,916,083**		**1,742,261**	**9,164,973**

INFORMATION ON "DAY ONE PROFIT/LOSS"

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

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

MAIN BALANCE SHEET AND

INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	30.06.2016	31.12.2015
a) Cash	46,344	62,306
b) Demand deposits with central banks		
Total	**46,344**	**62,306**

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	232	1,859		3	2,865	
1.1 Structured securities	*229*	*1*			*1*	
1.2 Other debt securities	*3*	*1,858*		*3*	*2,864*	
2. Equity instruments	1,619		399			400
3 Mutual funds						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**1,851**	**1,859**	**399**	**3**	**2,865**	**400**
B. Derivatives:						
1. Financial derivatives:	18	10,640	1,647	11	10,693	2,066
1.1 for trading	*18*	*9,981*	*1,647*	*11*	*9,698*	*2,066*
1.2 connected with the fair value option		*659*			*995*	
1.3 other						
2. Credit derivatives						
2.1 for trading						
2.2 connected with the fair value option						
2.3 other						
Total B	**18**	**10,640**	**1,647**	**11**	**10,693**	**2,066**
Total (A+B)	**1,869**	**12,499**	**2,046**	**14**	**13,558**	**2,466**

Caption 20 "Financial assets held for trading" comprises:

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

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

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

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

Captions/Amounts	30.06.2016	31.12.2015
A. Cash assets		
1. Debt securities	**2,091**	**2,868**
a) Government and central banks	*1,526*	*1,402*
b) Other public entities		
c) Banks	*335*	*1,465*
d) Other issuers	*230*	*1*
2. Equity instruments	**2,018**	**400**
a) Banks	124	
b) Other issuers:	1,894	400
- insurance companies	*264*	
- financial companies	*478*	
- non-financial companies	*1,152*	*400*
- other		
3. Mutual funds		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**4,109**	**3,268**
B. Derivatives		
a) Banks	12,102	11,072
- Fair value	*12,102*	*11,072*
b) Customers	203	1,698
- Fair value	*203*	*1,698*
Total B	**12,305**	**12,770**
Total (A+B)	**16,414**	**16,038**

Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	30.06.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,847,984	188,721		1,627,130	162,184	
1.1 Structured securities		*7,685*			*7,651*	
1.2 Other debt securities	*1,847,984*	*181,036*		*1,627,130*	*154,533*	
2. Equity instruments	63		14,078	203		13,677
2.1 Valued at fair value	*63*			*203*		
2.2 Valued at cost			*14,078*			*13,677*
3. Mutual funds	60,871		13,011	67,763		10,174
4. Loans						
Total	**1,908,918**	**188,721**	**27,089**	**1,695,096**	**162,184**	**23,851**

Caption "Financial assets available for sale" comprises:

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

Debt securities include securities associated with repurchase agreements.

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

Captions/Amounts	30.06.2016	31.12.2015
1. Debt securities	**2,036,705**	**1,789,314**
a) Government and central banks	1,933,988	1,710,974
b) Other public entities		
c) Banks	92,650	72,872
d) Other issuers	10,067	5,468
2. Equity instruments	**14,141**	**13,880**
a) Banks	63	203
b) Other issuers:	14,078	13,677
- insurance companies		
- financial companies	*3,045*	*3,094*
- non-financial companies	*10,403*	*10,403*
- other	*630*	*180*
3. Mutual funds	**73,882**	**77,937**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**2,124,728**	**1,881,131**

Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	30.06.2016				31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**151,893**			151,893	**97,807**			97,807
1. Restricted deposits								
2. Reserve requirement	151,893				97,807			
3. Repurchase agreements								
4. Other								
B. Due from banks	**78,427**				**195,185**			
1. Loans	68,348			68,186	185,212			185,212
1.1 Current accounts and demand deposits	27,337				115,663			
1.2 Restricted deposits	39,529				68,409			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	39,529				68,409			
1.3 Other loans:	1,482				1,140			
- Repurchase agreements	(1)							
- Finance leases								
- Other	1,483				1,140			
2. Debt securities	10,079		10,172		9,973		10,138	
2.1 Structured securities	3,787				3,730			
2.2 Other debt securities	6,292				6,243			
Total	**230,320**		**10,172**	**220,079**	**292,992**		**10,138**	**283,019**

Key

FV = fair value

BV = book value

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

At 30 June, Banco Desio Brianza's commitment to maintain the reserve requirement, inclusive of the commitment on behalf of the subsidiary Banca Popolare di Spoleto, amounts to Euro 86.3 million (Euro 85.3 million in December 2015).

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

The comparative figure in the table is shown net of receivables related to the subsidiary Rovere Societé de Gestion S.A. in liquidation for Euro 1,882 thousand, which at 31 December 2015 had been reclassified to "Non-current assets and disposal groups held for sale", and recorded under amounts due from banks at 30 June 2016 for Euro 889 thousand.

Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	30.06.2016						31.12.2015					
	Book value			Fair value			Book value			Fair value		
	Performing loans	Non-performing loans		L1	L2	L3	Performing loans	Non-performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	8,480,779		919,529		5,354,739	4,346,499	8,480,676		904,556		4,754,732	4,867,751
1. Current accounts	1,612,326		217,087				1,628,580		189,445			
2. Repurchase agreements	10,497											
3. Mortgage loans	4,917,292		624,086				4,878,004		493,963			
4. Credit cards, personal loans and assignments of one-fifth of salary	570,980		5,876				554,938		6,082			
5. Finance leases	317,465		21,410				353,760		24,318			
6. Factoring	27,480		281				27,051		355			
7. Other loans	1,024,739		50,789				1,038,343		190,393			
Debt securities	1,093				1,161		1,079				1,121	
8. Structured securities	1,093						1,079					
9. Other debt securities												
Total	**8,481,872**		**919,529**		**5,355,900**	**4,346,499**	**8,481,755**		**904,556**		**4,755,853**	**4,867,751**

Gross loans totalled Euro 10,314,898 thousand (Euro 10,262,262 thousand last year), including the loans acquired by means of a business combination with Banca Popolare di Spoleto S.p.A., recorded in the financial statements in accordance with IFRS 3. Total write-downs amount to Euro 913,498 thousand (Euro 875,951 thousand in December 2015).

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

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

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

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	30.06.2016			31.12.2015		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities	**1,093**			**1,079**		
a) Governments						
b) Other public entities						
c) Other issuers	1,093			1,079		
- non-financial companies						
- financial companies	*1,093*			*1,079*		
- insurance companies						
- other						
2. Loans to:	**8,480,779**		**919,529**	**8,480,676**		**904,556**
a) Governments	23,694			24,171		
b) Other public entities	9,357		6	3,816		97
c) Other parties	8,447,728		919,523	8,452,689		904,459
- non-financial companies	*5,531,870*		*684,639*	*5,568,401*		*683,062*
- financial companies	*131,047*		*915*	*131,305*		*868*
- insurance companies	*3,135*			*2,823*		
- other	*2,781,676*		*233,969*	*2,750,160*		*220,529*
Total	**8,481,872**		**919,529**	**8,481,755**		**904,556**

7.3 Loans to customers: assets with specific hedges

	30.06.2016	31.12.2015
1. Loans with specific fair value hedges	8,610	15,130
a) Interest rate risk	8,610	15,130
b) Exchange rate risk		
c) Credit risk		
d) Other risks		
2. Loans with specific cash flow hedges		
a) Interest rate risk		
b) Exchange rate risk		
c) Expected transactions		
d) Other hedged assets		
Total	**8,610**	**15,130**

This caption represents the nominal value of loans with specific fair value hedges for interest rate risk; the fair value of these receivables at 30 June comes to Euro 8,668 thousand.

Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	30.06.2016				31.12.2015			
	FV			NV	FV			NV
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives		**3,289**		**61,610**		**4,601**		**133,376**
1) Fair value		3,289		61,610		4,149		83,376
2) Cash flows						452		50,000
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**3,289**		**61,610**		**4,601**		**133,376**

Key

NV = notional value

FV = fair value

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

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

9.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Members of the group	30.06.2016	31.12.2015
1. Positive adjustments	**3,229**	**1,408**
1.1 of specific portfolios:	3,229	1,408
a) loans	*3,229*	*1,408*
b) financial assets available for sale		
1.2 total		
2. Negative adjustments	**(1,020)**	
2.1 of specific portfolios:	(1,020)	
a) loans	*(1,020)*	
b) financial assets available for sale		
2.2 total		
Total	**2,209**	**1,408**

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

9.2 Assets with generic hedges for interest rate risk

	30.06.2016	31.12.2015
1. Loans and receivables	7,633	7,819
2. Financial assets available for sale		
3. Portfolio		
Total	**7,633**	**7,819**

Equity investments - caption 100

10.1 Equity investments: details of holdings

Name	Registered office	Operational headquarters	Type of relationship (1)	Nature of holding		Voting rights %
				Parent company	% held	
B. Associates (subject to significant influence)						
Chiara Assicurazioni S.p.A	Milan	Milan	4	Banco Desio	32.665	32.665

Key

(1) Type of relationship:

4 = other forms of control

10.2 Significant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
B. Associates (subject to significant influence)			
Chiara Assicurazioni S.p.A	13,657		503
Total	13,657		503

10.3 Significant equity investments: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments to property, plant and equipment and intangible assets	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)
B. Associates (subject to significant influence)														
Chiara Assicurazioni S.p.A [1]	6,613	65,101	7,333	5,725	54,420	31,497	X	X	2,770	1,638		1,638		1,638

(1) Figures refer to the 2015 financial statements, the latest financial statements to be approved

Analysis of trigger events for impairment testing of the investment in an associated company

According to the provisions of IAS 36 and taking into account the information contained in the joint document issued by Bank of Italy/Consob/Isvap on 3 March 2010, an impairment test on equity investments is carried out at each year-end.

Impairment testing, unchanged compared with 31 December 2015, is designed to check that the carrying amount of the investment in Chiara Assicurazioni S.p.A. does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the investment.

The impairment test carried out on the investment at 30 June 2016 did not reveal any signs of losses.

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

The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment test carried out for financial statement purposes at 31 December 2015. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of risk-weighted assets (RWA), capital ratios (with particular reference to capital absorption) and the cost of equity (Ke).

As a result of this analysis, no trigger events were identified such as to require a repeat of the impairment test, nor any write-downs in the interim consolidated financial report at 30 June 2016.

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

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

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

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

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

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

d) an interchange of managerial personnel; or

e) the provision of essential technical information.

Based on what we have said, the assessments made for the identification of significant influence, which at the same time make it possible to exclude the existence of joint control over Chiara Assicurazioni SpA, are listed below.

The Banking Group's relationships with the associated company are expressed in the agreement for the distribution of insurance products entered into with the company. This relationship qualifies the power to participate in determining the management policies of the investee, but does not assign sufficient rights to have control of the company (as defined in IFRS 10), as the insurance company is subject to the control exercised by Helvetia, the parent company, which appears to be the only entity in a position to affect the development of its products.

Banco Desio and the other shareholders (trade partners) of the Company are qualified minority shareholders and the Shareholders' Agreement between them, which provides for consultation mechanisms of a majority nature, does not represent a situation of joint control for the lack of unanimous approval in the decision-making process of the parties involved in the Agreement.

10.7 Commitments relating to investments in companies under joint control

There are no commitments at 30.06.2016 relating to equity investments in companies under joint control.

10.8 Commitments relating to investments in companies subject to significant influence

With reference to the associate Chiara Assicurazioni SpA, it should be noted that the contract for the sale of the controlling interest signed on 24 April 2013, with the buyer counterparty Helvetia, includes a clause for pro-rata compensation by the Sellers (Banco Desio's share of 66.6%) relating to the event in which there is either a reduction in average annual premium income in the five years from 2013 to 2017 or in premium income at 31.12.2017 compared with the benchmark consisting of the gross premiums earned by the company at 31.12.2011. At the reporting date, there is no reason to assume activation of the compensation clause at 31.12.2017 as in the interim report the company closed the last three years with gross premiums exceeding the benchmark, as confirmed by the results achieved in the first half of 2016.

Note also that the contract provided for a commitment on the part of the selling shareholders to buy on a pro-rata basis or to make third parties purchase by 24 October 2015, for a total of Euro 5 million, the investment consisting of 934,590 shares of Cassa di Risparmio di Rimini S.p.A. held by Chiara Assicurazioni S.p.A. Note that on the expiry date of this commitment, other technical extensions were granted that brought about a contractual redefinition of the commitment.

At the reporting date, taking into account the equity value of the interest held by Chiara Assicurazioni (1.898%) as per the financial statements at 31 December 2015 published by Cassa di Risparmio di Rimini S.p.A., we point out that this value is lower than the carrying value of the investment and therefore, Banco di Desio made a provision for risks and charges for such a purchase commitment of Euro 357 thousand.

10.9 Significant restrictions

There are no significant restrictions (e.g. legal, contractual or regulatory restrictions) on the associates' ability to transfer funds to the Parent Company in the form of dividends, repayments of loans or advances granted by the Parent Company.

Property, plant and equipment - caption 120

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

Assets/Amounts	30.06.2016	31.12.2015
1 Own assets	**181,363**	**183,812**
a) land	52,564	52,564
b) property	109,500	109,698
c) furniture	6,750	7,446
d) electronic systems	6,991	7,881
e) other	5,558	6,223
2 Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**181,363**	**183,812**

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

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost, except for the initial recognition of tangible fixed assets acquired through business combinations that, pursuant to IFRS 3, takes place at fair value.

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

The comparative figure in the table is shown net of fixed assets for Euro 3 thousand relating to Rovere Societé de Gestion S.A. in liquidation, which, at 31 December 2015, had been reclassified to "Non-current assets and groups of assets held for sale".

12.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.06.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,162**			**1,027**	**1,171**			**1,047**
a) land	498			433	498			426
b) property	664			594	673			621
2. Assets purchased under finance leases								
a) land								
b) property								
Total	**1,162**			**1,027**	**1,171**			**1,047**

Intangible assets - caption 130

13.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2016		31.12.2015	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		15,322		15,322
A.1.1 Pertaining to the Group		15,322		15,322
A.1.2 Pertaining to minority interests				
A.2 Other intangible assets	2,137		2,885	
A.2.1 Carried at cost:	2,137		2,885	
a) Intangible assets generated internally				
b) Other assets	2,137		2,885	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	**2,137**	**15,322**	**2,885**	**15,322**

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

Other intangible assets are amortised on a straight-line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is four years and for application software it is four or five years, based on the useful life specified within the asset category.

Analysis of trigger events for impairment testing of goodwill

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

Impairment testing, unchanged compared with 31 December 2015, is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGUs.

The impairment test carried out at 30 June 2016 on the CGUs underlying consolidated goodwill did not reveal any signs of losses.

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

The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment tests carried out for financial statement purposes at 31 December 2015. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of RWA, capital ratios (with particular reference to capital absorption) and the cost of equity (Ke).

As a result of this analysis, no trigger events were identified for the CGUs, such as to require a repeat of the impairment tests, nor any write-downs in the interim consolidated financial report at 30 June 2016.

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

14.1 Deferred tax assets: breakdown

	Ires	Irap	30.06.2016	31.12.2015
A) With contra-entry to the income statement:				
Tax losses				1,009
Tax deductible goodwill	4,792	970	5,762	3,204
Write-down of loans to customers deductible on a straight-line basis	149,083	19,135	168,218	170,980
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	9		9	9
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	82		82	81
Provision for guarantees and commitments and country risk	900		900	790
Provisions for personnel costs	4,886	801	5,687	6,629
Provision for lawsuits	4,299	134	4,433	4,332
Provision for claw-backs	1,278	259	1,537	1,663
Provision for sundry charges	570	55	625	558
Tax provision for termination indemnities	329		329	313
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year	170		170	72
Other	1,741	380	2,121	2,118
Total A	**168,444**	**21,734**	**190,178**	**192,063**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	997		997	590
Write-down of securities classified as AFS	1,893	391	2,284	2,291
Other	1,467	284	1,751	217
Total B	**4,357**	**675**	**5,032**	**3,098**
Total (A+B)	**172,801**	**22,409**	**195,210**	**195,161**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2016	31.12.2015
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,693	871	7,564	7,567
Tax depreciation of property, plant and equipment		16	16	15
Tax amortisation of goodwill	475	96	571	571
Tax amortisation of deferred charges (software)	2	5	7	7
Tax provision as per art. 106, paragraph 3	20		20	20
Tax provision for termination indemnities	544		544	550
Other	10,410	1,763	12,173	14,832
Total A	**18,144**	**2,751**	**20,895**	**22,813**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	128	26	154	31
Revaluation of AFS securities	7,101	1,423	8,524	8,614
Revaluation of equity investments	6	24	30	30
Tax provision for termination indemnities	51		51	53
Total B	**7,286**	**1,473**	**8,759**	**8,728**
Total (A+B)	**25,430**	**4,224**	**29,654**	**31,541**

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

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

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

	30.06.2016	31.12.2015
A. Individual assets		
A.1 Financial assets		1,882
A.2 Equity investments		2,471
A.3 Property, plant and equipment		
A.4 Intangible assets		
A.5 Other non-current assets		614
Total A		**4,967**
of which carried at cost		4,967
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value through profit and loss		
B.3 Financial assets available for sale		
B.4 Financial assets held to maturity		
B.5 Due from banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Property, plant and equipment		
B.9 Intangible assets		
B.10 Other assets		
Total B		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		(754)
Total C		**(754)**
of which carried at cost		(754)
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		
D. Liabilities associated with groups of assets held for sale		
D.1 Due to banks		
D.2 Due to customers		
D.3 Debt securities in issue		
D.4 Financial liabilities held for trading		
D.5 Financial liabilities designated at fair value through profit and loss		
D.6 Provisions		
D.7 Other liabilities		
Total D		
of which carried at cost		
of which designated at fair value through profit and loss level 1		
of which designated at fair value through profit and loss level 2		
of which designated at fair value through profit and loss level 3		

The table provides information about non-current assets and disposal groups held for sale and associated liabilities, reclassified under asset caption 150 and liability caption 90 in accordance with IFRS 5. These figures, commented on under the relevant captions, refer to the subsidiary Rovere Societé de Gestion S.A. in liquidation which, at 31 December 2015, were reclassified under the caption "Non-current assets and disposal groups held for sale". Given that these did not represent a major line of business for the Group, the related P&L figures were not reclassified as "Profit (loss) on non-current assets held for sale".

Other assets - caption 160

16.1 Other assets: breakdown

	30.06.2016	31.12.2015
Tax credits		
- capital portion	10,749	10,762
Amounts recoverable from the tax authorities for advances paid	59,196	48,836
Withholding tax credits	8	25
Cheques negotiated to be cleared	28,979	16,271
Guarantee deposits		2
Invoices issued to be collected	1,546	907
Debtors for securities and coupons to be collected by third parties	8	
Items being processed and in transit with branches	45,938	41,881
Currency spreads on portfolio transactions	20	188
Investments of the supplementary fund for termination indemnities	355	362
Leasehold improvement expenditure	15,897	16,814
Accrued income and prepaid expenses	2,910	1,044
Other items	78,921	20,567
Total	**244,527**	**157,659**

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

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

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

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

Caption "Other items" includes the receivable of Euro 50,839 thousand from the liquidator of CPC S.A. in liquidation; This receivable is of specific nature and is recoverable for the excess over the amount of Euro 933 thousand allocated to the provision for risks and charges in respect of the charges estimated for cancellation of the company.

The caption also includes the receivable of Euro 233 thousand from the former liquidator of Brianfid Lux S.A. (Euro 259 thousand at the end of 2015) for the guarantee given with regard to the litigation still pending on the date of cancellation of the company. This receivable is of a specific nature and recoverable for the excess over the amount of Euro 50 thousand allocated to the provision for risks and charges in respect of such litigation.

The comparative figure shown in the table is net of assets for Euro 610 thousand relating to Rovere Societé de Gestion S.A. in liquidation, which, at 31 December 2015, were reclassified to "Non-current assets and groups of assets held for sale".

LIABILITIES

Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Members of the group	30.06.2016	31.12.2015
1. Due to central banks	**800,000**	**551,009**
2. Due to banks	**193,963**	**202,106**
2.1 Current accounts and demand deposits	40,037	32,657
2.2 Restricted deposits	6,815	7,997
2.3 Loans	147,053	161,387
2.3.1 Repurchase agreements		
2.3.2 Other	147,053	161,387
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	58	65
Total	**993,963**	**753,115**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**993,963**	**753,115**
Total fair value	**993,963**	**753,115**

The changes in amounts due to central banks reflect the allocation to Banco Desio Group of Euro 800 million of long-term liquidity by the ECB as part of "TLTRO II", with the simultaneous repayment of the loan obtained from TLTRO I of Euro 550 million.

Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Members of the group	30.06.2016	31.12.2015
1. Current accounts and demand deposits	6,887,123	6,767,936
2. Restricted deposits	1,404,905	1,265,977
3. Loans	123,646	176,276
3.1 Repurchase agreements	99,952	152,105
3.2 Other	23,694	24,171
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	35,597	33,921
Total	**8,451,271**	**8,244,110**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**8,451,271**	**8,244,110**
Fair value	**8,451,271**	**8,244,110**

Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

	30.06.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,504,474		1,491,783		1,761,760		1,742,261	11,404
1.1 structured	*15,615*		*15,779*		*14,771*		*14,771*	
1.2 other	*1,488,859*		*1,476,004*		*1,746,989*		*1,727,490*	*11,404*
2. Other securities	49,025			49,025	156,344			156,344
2.1 structured								
2.2 other	*49,025*			*49,025*	*156,344*			*156,344*
Total	**1,553,499**		**1,491,783**	**49,025**	**1,918,104**		**1,742,261**	**167,748**

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

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 27,146 thousand were issued with a short term maturity (Euro 81,688 thousand at the end of 2015) and Euro 21,690 thousand were issued with a longer than short term maturity (Euro 74,255 thousand at the end of 2015). The remainder consists of certificates of Euro 188 thousand that have reached maturity and which are due to be redeemed (Euro 401 thousand at the end of 2015).

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

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

Bonds	Issue date	Maturity date	Currency	Rate	30.06.2016	31.12.2015
Issued by the Parent Company						
ISIN code IT0004780182	29.12.2011	29.12.2016	EUR	FR	12,935	12,911
ISIN code IT0004815855	15.06.2012	15.06.2017	EUR	FR	12,625	12,896
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	12,856	12,942
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	49,508	50,397
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,669	49,986
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,891	79,894
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,144	50,199
Issued by Subsidiaries						
ISIN code IT0004331598	15.04.2008	15.04.2018	EUR	FR	7,956	8,119
ISIN code IT0004344278	18.04.2008	18.04.2018	EUR	FR	10,528	10,646
				Total	**286,112**	**287,990**

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

Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Members of the group	30.06.2016					31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1. Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2. Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives			5,099	1,537				3,132	2,016	
1.1 For trading			5,099	1,537				3,132	2,016	
1.2 Connected with the fair value option										
1.3 Other										
2. Credit derivatives										
2.1 For trading										
2.2 Connected with the fair value option										
2.3 Other										
Total B			**5,099**	**1,537**				**3,132**	**2,016**	
Total A+B			**5,099**	**1,537**				**3,132**	**2,016**	

Key

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

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

Type of transaction/Amounts	30.06.2016					31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**20,300**		**20,824**		**20,970**	**22,050**		**22,828**		**23,117**
3.1 Structured	20,300		20,824			22,050		22,828		
3.2 Other										
Total	**20,300**		**20,824**		**20,970**	**22,050**		**22,828**		**23,117**

Key

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

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	30.06.2016				31.12.2015			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial		**8,805**		**140,554**		**24,758**		**196,982**
1) Fair value		4,475		10,554		24,328		116,982
2) Cash flows		4,330		130,000		430		80,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**8,805**		**140,554**		**24,758**		**196,982**

Key

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Other liabilities - caption 100

10.1 Other liabilities: breakdown

	30.06.2016	31.12.2015
Due to tax authorities	1,947	2,226
Amounts payable to tax authorities on behalf of third parties	35,756	26,327
Social security contributions to be paid	3,681	6,684
Dividends due to shareholders	25	24
Suppliers	14,855	13,358
Amounts available to customers	22,402	18,528
Interest and dues to be credited		86
Payments against bill instructions	8,743	695
Early payments on loans not yet due	71	1,441
Items being processed and in transit with branches	113,468	68,106
Currency differences on portfolio transactions	200,977	80,439
Due to personnel	10,394	12,211
Sundry creditors	10,965	12,260
Provisions for guarantees given and commitments	4,786	4,378
Accrued expenses and deferred income	9,010	2,442
Total	**437,080**	**249,205**

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

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

"Due to personnel" includes early retirement incentives of Euro 7,185 thousand (Euro 8,862 thousand last year) and the balance of the amount due for holiday pay of Euro 2,363 thousand (Euro 2,125 thousand last year). At the end of the previous year, the caption also included the fair value of share-based bonuses of Euro 416 thousand, which were paid in June.

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for Euro 2,863 thousand (Euro 1,930 thousand last year), creditors for bills withdrawn for Euro 1,663 thousand (Euro 1,319 thousand last year) and bank transfers being processed for Euro 855 thousand (Euro 108 thousand last year).

The comparative figure in the table is shown net of liabilities for Euro 754 thousand relating to Rovere Societé de Gestion S.A. in liquidation, which, at 31 December 2015, had been reclassified to "Non-current assets and groups of assets held for sale".

Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Captions/Components	30.06.2016	31.12.2015
1. Pensions and similar commitments		
2. Other provisions for risks and charges	42,282	46,725
2.1 Legal disputes	*20,785*	*22,438*
2.2 Personnel expenses	*17,246*	*20,342*
2.3 Other	*4,251*	*3,945*
Total	**42,282**	**46,725**

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 15,145 thousand relates to legal disputes (Euro 15,404 thousand last year) and Euro 4,646 thousand relates to bankruptcy clawback actions (Euro 5,028 thousand last year). In application of IFRS 3, the provision for bankruptcy clawback actions includes Euro 510 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS.

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

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

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

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

	30.06.2016	31.12.2015
A. Share capital	67,705	67,705
A.1 Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**67,705**	**67,705**

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

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

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

Minority interests - caption 210

16.1 Details of caption 210 "Minority interests"

Company name	30.06.2016	31.12.2015
Equity investments in consolidated companies with significant minority interests	**51,541**	**51,428**
Banca Popolare Spoleto S.p.A.	51,415	51,283
Rovere Societé de Gestion S.A. in liquidation	126	145
Other equity investments		**178**
Total	**51,541**	**51,606**

INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2016	30.06.2015
1. Financial assets held for trading	39		313	352	447
2. Financial assets designated at fair value through profit and loss					
3. Financial assets available for sale	6,961			6,961	8,694
4. Financial assets held to maturity					
5. Due from banks	128	157		285	664
6. Loans to customers	14	150,839		150,853	180,986
7. Hedging derivatives					685
8. Other assets			2	2	34
Total	**7,142**	**150,996**	**315**	**158,453**	**191,510**

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

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question at 30 June amounts to Euro 9,369 thousand (Euro 7,940 thousand in June 2015).

Conversely, the caption includes default interest collected in the period of Euro 394 thousand (Euro 280 thousand in June 2015).

1.2 Interest and similar income: differentials on hedging transactions

Captions	30.06.2016	30.06.2015
A. Positive differentials on hedging transactions		922
B. Negative differentials on hedging transactions		(237)
C. Balance (A-B)		**685**

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2016	30.06.2015
1. Due to central banks	(417)			(417)	(449)
2. Due to banks	(193)			(193)	(382)
3. Due to customers	(18,202)			(18,202)	(22,465)
4. Debt securities in issue		(19,425)		(19,425)	(30,050)
5. Financial liabilities held for trading	(27)			(27)	(17)
6. Financial liabilities designated at fair value		(342)		(342)	(348)
7. Other liabilities and provisions			(5)	(5)	(2)
8. Hedging derivatives			(36)	(36)	(116)
Total	**(18,839)**	**(19,767)**	**(41)**	**(38,647)**	**(53,829)**

1.5 Interest and similar expense: differentials on hedging transactions

Captions	30.06.2016	30.06.2015
A. Positive differentials on hedging transactions	1,176	
B. Negative differentials on hedging transactions	(1,212)	(116)
C. Balance (A-B)	**(36)**	**(116)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.06.2016	30.06.2015
a) guarantees given	1,680	1,767
b) credit derivatives		
c) management, brokerage and consulting services:	23,870	25,323
1. trading in financial instruments		
2. trading in foreign exchange	826	1,048
3. asset management	3,028	2,687
3.1. individual	2,691	2,448
3.2. collective	337	239
4. custody and administration of securities	916	983
5. custodian bank		
6. placement of securities	9,522	9,453
7. order taking	3,053	5,094
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	6,525	6,058
9.1 asset management	155	161
9.1.1. individual	155	161
9.1.2. collective		
9.2 insurance products	4,550	4,594
9.3 other products	1,820	1,303
d) collection and payment services	14,371	15,063
e) servicing related to securitisation	33	41
f) services for factoring transactions	80	79
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	35,035	37,507
j) other services	9,930	11,538
Total	**84,999**	**91,318**

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 6,166 thousand, recoveries of expenses on customer collection and payments for Euro 93 thousand, fees for the Internet banking service of Euro 691 thousand and recoveries of expenses on mortgage instalments for Euro 442 thousand.

2.2 Commission expense: breakdown

Services/Amounts	30.06.2016	30.06.2015
a) guarantees received	(186)	(183)
b) credit derivatives		
c) management and brokerage services	(1,051)	(1,110)
1. trading in financial instruments	(50)	(46)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(635)	(700)
5. placement of financial instruments	(366)	(364)
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(1,787)	(2,415)
e) other services	(7,080)	(7,425)
Total	**(10,104)**	**(11,133)**

Commissions for "other services" include fees relating to remuneration of the network of financial advisors for Euro 6,390 thousand.

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2016		30.06.2015	
	Dividends	Income from Mutual funds	Dividends	Income from Mutual funds
A. Financial assets held for trading	29			
B. Financial assets available for sale	945		300	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	**974**		**300**	

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

Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**88**	**154**	**(382)**	**(65)**	**(205)**
1.1 Debt securities	81	43	(25)	(7)	92
1.2 Equity instruments	7	38	(357)	(56)	(368)
1.3 Mutual funds					
1.4 Loans					
1.5 Other		73		(2)	71
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange differences					**1,492**
4. Derivatives	**391**	**1,404**	**(1,066)**	**(1,471)**	**(665)**
4.1 Financial derivatives:	391	1,404	(1,066)	(1,471)	(742)
- On debt securities and interest rates	376	1,020	(1,061)	(1,237)	(902)
- On equities and equity indices	15	377	(5)	(220)	167
- On currency and gold					77
- Other		7		(14)	(7)
4.2 Credit derivatives					
Total	**479**	**1,558**	**(1,448)**	**(1,536)**	**622**

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

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

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	30.06.2016	30.06.2015
A. Income relating to:		
A.1 Fair value hedges	19	230
A.2 Hedged financial assets (fair value)	1,301	
A.3 Hedged financial liabilities (fair value)	820	1,065
A.4 Cash flow hedges		37
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**2,140**	**1,332**
B. Charges relating to:		
B.1 Fair value hedges	(2,898)	(1,365)
B.2 Hedged financial assets (fair value)		(1,539)
B.3 Hedged financial liabilities (fair value)		(21)
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(2,898)**	**(2,925)**
C. Net hedging gains (losses) (A-B)	**(758)**	**(1,593)**

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

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2016			30.06.2015		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	1,105		1,105	139	(1,140)	(1,001)
3. Financial assets available for sale	10,656	(3,095)	7,561	14,229	(429)	13,800
3.1 Debt securities	9,839	(2,937)	6,902	13,415	(297)	13,118
3.2 Equity instruments	6		6	196		196
3.3 Mutual funds	811	(158)	653	618	(132)	486
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**11,761**	**(3,095)**	**8,666**	**14,368**	**(1,569)**	**12,799**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	167	(1,079)	(912)	36	(2,647)	(2,611)
Total liabilities	**167**	**(1,079)**	**(912)**	**36**	**(2,647)**	**(2,611)**

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

The caption "2. Loans to customers" includes the results from the repurchase of the loan portfolio relating to the Spoleto Mortgages 2003 securitisation.

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

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

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

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)] 30.06.2016
Financial assets					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities	**146**	**3**		**(3)**	**146**
2.1 Debt securities	146	3		(3)	146
2.2 Due to banks					
2.3 Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives	**22**	**12**	**(228)**		**(194)**
Total	**168**	**15**	**(228)**	**(3)**	**(48)**

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

Net impairment adjustments - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2016	30.06.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(1,381)	(96,676)	(2,657)	13,278	39,323		4,666	(43,447)	(76,613)
Non-performing loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(1,381)	(96,676)	(2,657)	13,278	39,323		4,666	(43,447)	(75,909)
- Debt securities									(704)
C. Total	**(1,381)**	**(96,676)**	**(2,657)**	**13,278**	**39,323**		**4,666**	**(43,447)**	**(76,613)**

Key
A = Interest
B = Other write-backs

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

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

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

- Doubtful loans for Euro 52,290 thousand (Euro 53,845 thousand in June 2015);
- Unlikely to pay for Euro 41,696 thousand (Euro 54,225 thousand in June 2015);
- Past due loans for Euro 2,690 thousand (Euro 5,299 thousand in June 2015)

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

The specific "interest" write-backs (A) relate to the write-back of interest at the assumed discount rates on the capital element which is deemed to be recoverable, of which Euro 9,055 thousand relating to doubtful loans and Euro 4,223 thousand relating to unlikely to pay loans.

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

Transactions/Income components	Write-downs (1)		Write-backs (2)		30.06.2016	30.06.2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities		(20)			(20)	(126)
B. Equity instruments		(122)			(122)	(7)
C. Mutual funds						
D. Loans to banks						
E. Loans to customers						
F. Total		**(142)**			**(142)**	**(133)**

Key

A = Interest

B = Other write-backs

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				30.06.2016	30.06.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(126)	(632)		1,920		1	1,163	78
B. Credit derivatives									
C. Commitments to disburse									
D. Other transactions									
E. Total		**(126)**	**(632)**		**1,920**		**1**	**1,163**	**78**

Key

A = Interest

B = Other write-backs

Net impairment adjustments to other financial transactions have a positive balance of Euro 1,163 thousand, of which:

- write-back of Euro 1,571 thousand for the crediting of contributions paid by the Parent Company to the interbank fund in favour of Banca Tercas and recorded in this caption. The simultaneous contribution paid by the Parent Company to the voluntary scheme to support the same Tercas, amounting to Euro 1,576 thousand, is recorded under Other administrative costs;

- adjustment of Euro 441 thousand with respect to the commitment to the Interbank Fund Voluntary Scheme for future interventions.

Administrative expenses - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	30.06.2016	30.06.2015
1) Employees	(86,418)	(87,530)
a) Wages and salaries	(58,780)	(59,534)
b) Social security charges	(15,106)	(15,974)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(259)	(560)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(5,316)	(6,116)
- defined contribution	(5,316)	(6,116)
- defined benefit		
h) Equity-based payments		(105)
i) Other personnel benefits	(6,957)	(5,241)
2) Other active employees	(374)	(388)
3) Directors and auditors	(2,277)	(2,517)
4) Retired personnel		
Total	**(89,069)**	**(90,435)**

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

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

11.2 Average number of employees by level

	30.06.2016	30.06.2015
1) Employees	**2,364**	**2,430**
a) managers	36	33
b) middle managers	1,083	1,101
c) other employees	1,245	1,296
2) Other personnel	**4**	**6**

11.3 Pensions and similar commitments - defined benefits

There are none at the reporting date.

11.4 Other personnel benefits

	30.06.2016	30.06.2015
Provision for sundry charges	(4,183)	(2,744)
Contributions to healthcare fund	(952)	(954)
Training and instruction costs	(194)	334
Rent expense of property used by employees	(195)	(142)
Redundancy incentives	(172)	(154)
Other	(1,261)	(1,581)
Total	**(6,957)**	**(5,241)**

The main components of the "Other" caption include company canteen costs of Euro 1,100 thousand (Euro 1,128 thousand in June 2015) and costs relating to insurance premiums of Euro 210 thousand (Euro 101 thousand in June 2015).

11.5 Other administrative costs: breakdown

	30.06.2016	30.06.2015
Indirect taxes and duties:		
- Stamp duty	(12,824)	(14,590)
- Other	(2,922)	(2,643)
Other costs:		
- IT expenses	(10,211)	(7,140)
- Lease of property and other assets	(7,188)	(4,339)
- Maintenance of buildings, furniture and equipment	(2,607)	(3,142)
- Post office and telegraph	(1,290)	(1,566)
- Telephone and data transmission	(2,874)	(2,563)
- Electricity, heating, water	(2,289)	(2,362)
- Cleaning services	(742)	(787)
- Printed matter, stationery and consumables	(762)	(652)
- Transport costs	(633)	(607)
- Surveillance and security	(1,006)	(1,154)
- Advertising	(952)	(1,131)
- Information and surveys	(1,007)	(1,035)
- Insurance premiums	(862)	(880)
- Legal fees	(3,393)	(3,989)
- Professional consulting fees	(3,996)	(4,187)
- Various contributions and donations	(134)	(187)
- Sundry expenses	(9,967)	(8,507)
Total	**(65,659)**	**(61,461)**

Sundry expenses include the contribution to the Single Resolution Mechanism (SRM) for Euro 3,779 thousand, the aforementioned contribution to the Interbank Fund Voluntary scheme for the intervention in favour of Banca Tercas for Euro 1,576 thousand (upon completion of the repayment of the contribution previously paid to the Interbank Fund for Euro 1,571 thousand), reimbursements to employees for travel expenses, mileage reimbursements for Euro 679 thousand (Euro 824 thousand in June 2015), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 1,310 thousand (Euro 1,376 thousand in June 2015), membership fees for Euro 718 thousand (Euro 805 thousand in June 2015) and subscriptions to newspapers and magazines for Euro 213 thousand (Euro 239 thousand in June 2015).

Net provisions for risks and charges - caption 190

12.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	30.06.2016	30.06.2015
charges for legal disputes	(3,799)	1,513	(2,286)	(1,463)
other	(1,277)	819	(458)	211
Total	**(5,076)**	**2,332**	**(2,744)**	**(1,252)**

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

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

Net adjustments to property, plant and equipment - caption 200

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 30.06.2016
A. Property, plant and equipment				
A.1 Owned	(4,155)			(4,155)
- for business purposes	(4,146)			(4,146)
- for investment purposes	(9)			(9)
A.2 Held under finance leases			(3)	(3)
- for business purposes				
- for investment purposes			(3)	(3)
Total	**(4,155)**		**(3)**	**(4,158)**

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

Net adjustments to intangible assets - caption 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 30.06.2016
A. Intangible assets				
A.1 Owned	(923)			(923)
- *Generated internally*				
- *Other*	*(923)*			*(923)*
A.2 Held under finance leases				
Total	**(923)**			**(923)**

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

Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	30.06.2016	30.06.2015
Amortisation of leasehold improvements	(1,108)	(1,300)
Losses on disposal of property, plant and equipment	(27)	(5)
Charges on non-banking services	(1,073)	(3,476)
Total	**(2,208)**	**(4,781)**

In the comparative period, the most significant item in the caption "Charges on non-banking services" referred for Euro 2,349 thousand to the ex-ante estimate of the contribution to the Single Resolution Mechanism now recorded under "Other administrative costs".

15.2 Other operating income: breakdown

	30.06.2016	30.06.2015
Recovery of taxes from third parties	13,921	15,705
Recharge of costs of current accounts and deposits	6,251	6,061
Rental and leasing income	30	24
Other expense recoveries	5,798	7,280
Gains on disposal of property, plant and equipment	2	63
Other	1,269	763
Total	**27,271**	**29,896**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 4,766 thousand (Euro 4,268 thousand in June 2015) and other recoveries for various communications to customers of Euro 1,353 thousand (Euro 1,693 thousand in June 2015).

"Other expense recoveries" include, in particular, recoveries of legal expenses on doubtful loans for Euro 2,641 thousand (amount almost entirely adjusted under the credit assessment process), recoveries of investigation costs relating to various loans of Euro 756 thousand, recovery of costs of appraisals in connection with mortgage loans of Euro 163 thousand and recovery of sundry expenses relating to lease applications of Euro 266 thousand.

"Recovery of taxes from third parties" mainly includes the stamp duty on statements of account (current accounts and securities deposit accounts).

Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	30.06.2016	30.06.2015
1) Companies subject to joint control		
A. Income	5,254	
1. Revaluations		
2. Gains on disposal		
3. Write-backs		
4. Other income	5,254	
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	**5,254**	
2) Associates (subject to significant influence)		
A. Income	287	1,557
1. Revaluations	287	1,557
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses	(437)	
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal	(437)	
4. Other charges		
Net result	**(150)**	**1,557**
Total	**5,104**	**1,557**

Caption "Other income" includes Euro 5,254 thousand as the difference between the value of the claim against the liquidators of CPC S.A. in liquidation and the value of the investment in CPC S.A. in liquidation which has been eliminated, after deducting the estimated costs for the company's cancellation, also taking into account the income of Euro 1,085 thousand relating to the reversal of future charges that had been already accrued in the consolidated financial statements at 31 December 2015; this positive result of Euro 5,254 thousand therefore represents the final effect for the Banco Desio Group of the liquidation of the former Swiss subsidiary, compared with the original plan of the liquidators; the Group structure had already changed, however, as of 1 January 2016, with the elimination of CPC from the scope of consolidation.

The "Losses on disposal" of Euro 437 thousand reflect the negative result from selling the investment in Istifid S.p.A.

Income taxes on current operations - caption 290

20.1 Income taxes on current operations: breakdown

Income items/Segments	30.06.2016	30.06.2015
1. Current taxes (-)	(5,549)	(12,080)
2. Change in prior period income taxes (+/-)	(1)	229
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(2,089)	6,321
5. Change in deferred tax liabilities (+/-)	2,165	1,561
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(5,474)**	**(3,969)**

Taxation for the year benefited from the step-up for tax purposes (pursuant to art. 15, paragraph 10, of Legislative Decree 185/2008) of the goodwill recorded by the subsidiary Banca Popolare di Spoleto in the balance sheet for the contribution of the former branches of Banco Desio Toscana and Banco Desio Lazio by the transferring company Banco Desio for a total of Euro 8,068 thousand. The positive effect on net profit for the year is Euro 1,377 thousand, due to the difference between the substitute tax paid of Euro 1,291 thousand (shown in caption 1) and the change in deferred tax assets of Euro 2,668 thousand (shown in caption 4).

The change in deferred tax assets (shown in caption 4) includes the cancellation by the Parent Company of deferred tax assets of Euro 2,624 thousand, relating to write-downs of loans to customers not yet deducted and deductible in 10 years from 2016 at rising percentages (from 5% to 12% with differences from year to year), pursuant to Decree Law 83 of 27 June 2015, as amended.

Earnings per share

	30.06.2016		30.06.2015	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	19,597	2,692	16,381	2,329
Average number of shares outstanding	117,000,000	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	117,000,000	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	**0.17**	**0.20**	**0.14**	**0.18**
Diluted earnings per share (Euro)	**0.17**	**0.20**	**0.14**	**0.18**

INFORMATION ON RISKS AND RELATED HEDGING POLICY

INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

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

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

The Board of Directors of the Parent Company approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. These documents provide for specific risk indicators with the relevant attention thresholds on an individual legal entity basis. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system.

SECTION 1 – RISKS FACED BY THE BANKING GROUP

1.1 Credit risk

<u>Qualitative information</u>

1. *General aspects*

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

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; leasing and factoring; financial, insurance and asset management products; debit and credit cards.

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

2. Credit risk management policies

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions.

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

The Parent Company's Board of Directors lays down the ways in which each subsidiary has to implement the various levels of control, taking into account the nature and size of the subsidiary's activity and its location; the Board of Directors also identifies the functions of the Parent Company that are responsible for specific control mechanisms, establishing suitable information flows.

2.2 Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.

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

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. As part of its corporate risk management policy, the Group has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Parent Company's Risk Management Department activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies. As part of the process for the adaptation of the Internal Control System (as per Circular 263), a "Credit Risk Control" structure has been established within the Risk Management Department with the task of verifying that credit exposures are properly monitored, of supervising the monitoring of loans by the competent corporate functions and of intervening, where necessary, in the classification of problem loans and in ensuring appropriate provisions are made.

For risk management purposes, Banco Desio Group uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans).

For the purpose of calculating the capital requirement for credit risk, the Group follows the rules laid down in the regulations for the standardised approach.

2.3 Credit risk mitigation techniques

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

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but for significant amounts, there are also pledges on securities and/or cash.

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

2.4. Impaired financial assets

Non-performing loans are classified as follows:

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

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

The Group has introduced a policy that lays down the criteria for making adjustments by codifying the rules that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral.

The expected loss is, in fact, the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and compared with the development of the individual position. The Risk Management Office of the Parent Company periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment.

The time element linked to the present value of non-performing loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

Quantitative information

Credit quality

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

Portfolio/Quality	Doubtful loans	Unlikely to pay	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	2,036,705	2,036,705
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	230,320	230,320
4. Loans to customers	467,103	419,307	33,119	291,713	8,190,159	9,401,401
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
30.06.2016	**467,103**	**419,307**	**33,119**	**291,713**	**10,457,184**	**11,668,426**
31.12.2015	**443,926**	**411,964**	**48,666**	**387,635**	**10,178,308**	**11,470,499**

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

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	2,036,705	-	2,036,705	2,036,705
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	230,320	-	230,320	230,320
4. Loans to customers	1,537,370	(617,841)	919,529	8,534,532	(52,660)	8,481,872	9,401,401
5. Financial assets designated at fair value through profit and loss	-	-	-			-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 30.06.2016	**1,537,370**	**(617,841)**	**919,529**	**10,801,557**	**(52,660)**	**10,748,897**	**11,668,426**
Total 31.12.2015	**1,468,806**	**(564,250)**	**904,556**	**10,623,400**	**(57,457)**	**10,565,943**	**11,470,499**

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	4	27	14,369
2. Hedging derivatives	-	-	3,289
Total 30.06.2016	**4**	**27**	**17,658**
Total 31.12.2015	**-**	**-**	**20,239**

At 30 June 2016 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 102,521 thousand.

The portfolio of Loans to customers includes non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 30 June 2016 amounted to Euro 242,997 thousand. This difference essentially represents the writedowns made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (the so-called "coverage ratio"), note that the total amount of gross non-performing loans at 30 June 2016 amounted to Euro 1,780 million and total write-downs to Euro 861 million (including BPS's non-performing loans and related write-downs).

A.1.3 Banking Group – On- and off-balance sheet credit exposures to banks: gross and net amounts and past due bands

Types of exposure/amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
b) Unlikely to pay	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
c) Past due non-performing loans	-	-	-	-		-		-
- of which: exposures subject to forbearance	-	-	-	-		-		-
d) Past due performing loans					-		-	-
- of which: exposures subject to forbearance					-		-	-
e) Other performing exposures					323,305		-	323,305
- of which: exposures subject to forbearance					-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**323,305**	**-**	**-**	**323,305**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-		-		-
b) Performing					23,321		-	23,321
TOTAL B	**-**	**-**	**-**	**-**	**23,321**	**-**	**-**	**23,321**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**346,626**	**-**	**-**	**346,626**

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

Types of exposure/amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	3	5,180	24,792	909,110		471,982		467,103
- of which: exposures subject to forbearance	-	-	76	9,256		5,385		3,947
b) Unlikely to pay	170,157	69,426	108,567	211,914		140,757		419,307
- of which: exposures subject to forbearance	99,380	25,014	28,591	62,753		52,803		162,935
c) Past due non-performing loans	26,004	9,239	2,434	544		5,102		33,119
- of which: exposures subject to forbearance	20,179	1,232	99	34		3,011		18,533
d) Past due performing loans					296,826		5,113	291,713
- of which: exposures subject to forbearance					29,231		733	28,498
e) Other performing exposures					10,183,516		47,547	10,135,969
- of which: exposures subject to forbearance					163,997		2,943	161,054
TOTAL A	**196,164**	**83,845**	**135,793**	**1,121,568**	**10,480,342**	**617,841**	**52,660**	**11,347,211**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	13,564	-	-	-		1,353		12,211
b) Performing					506,081		1,128	504,953
TOTAL B	**13,564**	**-**	**-**	**-**	**506,081**	**1,353**	**1,128**	**517,164**
TOTAL (A+B)	**209,728**	**83,845**	**135,793**	**1,121,568**	**10,986,423**	**619,194**	**53,788**	**11,864,375**

The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 30 June 2016; details are provided below:

a) Doubtful loans: Euro 215,625 thousand;
b) Unlikely to pay: Euro 27,346 thousand;
c) Past due non-performing loans: Euro 26 thousand.

Classification of exposures on the basis of external and internal rating

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

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

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

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

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

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

Exposures at 30.06.2016	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	60.73%	28.63%	8.94%	1.70%	100%
Off-balance sheet exposures	78.48%	17.04%	3.64%	0.84%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 June 2016 is reported below:

Description	*Nominal Amount*	*Weighted amount*	*Number of positions*
Large exposures	2,357,856	179,449	3

The positions indicated mainly relate to exposures towards the Italian Government, concerning securities in portfolio and tax assets, the Bank of Italy and the Cassa di Compensazione e Garanzia.

1.2 MARKET RISK

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

Qualitative information

A. General aspects

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

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

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

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

In carrying out its responsibilities for management and coordination, the Board of Directors of Banco Desio e della Brianza S.p.A., as the Parent Company, issued specific rules on controls to all companies in the Banking Group.

Trading by the Parent Company's Finance Department is undertaken only for the Italian Group banks and is subject to operating limits as set out in the "Risk policy" and in the Consolidated Texts; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the Parent Company's risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model used involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

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

Quantitative information

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

The monitoring of the "trading portfolio reported for supervisory purposes" in the first half of 2016 evidenced a structure with limited market risks. Related VaR at 30.06.2016 amounted to € 0.272 million, with a percentage of 6.30% of the trading portfolio.

1.2.2. INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative information

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

The measurement of interest rate risk is performed by the Parent Company's risk management function. This activity is carried out for the Group's banks, which cover almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ALMpro.

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

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

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

B. Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group uses fair value hedges and solely on behalf of the Italian banks in the Group, in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.

To date, hedged instruments relate to both assets (fixed rate mortgage loans granted) and liabilities (bonds issued). As regards assets, various types of hedges represented by Group micro and macro hedges as well as specific micro-hedges have been implemented. As regards liabilities, on the other hand, all hedging involves specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - mainly interest rate swaps and interest rate options - but only to hedge interest rate risk.

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

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

C. Cash flow hedges

The Group uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

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

Quantitative information

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

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits. This has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 30 June 2016, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 30.06.2016

	+100 bps	*-100 bps*
% of the expected margin	*1.39%*	*-19.17%*
% of net interest and other banking income	*0.83%*	*-11.53%*
% of the result of the year	*5.96%*	*-82.43%*
% of shareholders' equity	*0.30%*	*-4.42%*

With regard to the economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure for the first half of 2016 that has been maintained at levels that do not result in significant impacts on total capital.

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

Risk ratios: parallel shifts in the yield curve at 30.06.2016

	+100 bps	*-100 bps*
% of the economic value	*-3.06%*	*1.43%*

1.2.3. EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

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

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

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

B. Hedging of exchange risk

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

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

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

1.3. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

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

The monitoring of and periodic reporting on liquidity risk is carried out by the Parent Company's Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

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

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

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

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

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

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

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

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

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

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

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

1.4. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

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

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

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised both for the Parent Company and for the subsidiaries Banca Popolare di Spoleto and Fides:

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

The Parent Company's Risk Management Office applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented some time ago that is capable of providing information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals. In 2016, the reporting system was supplemented with a specific focus on the subject of IT risk.

In compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), the Group set up the Security and ICT Governance Function (within the Parent Company) and adopted:

- Security Policy;
- Accident Management;
- IT Risk Methodology.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been prepared: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations (Desio, Spoleto), to be used in the event of an emergency and for testing purposes. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

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

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

CLAW-BACK SUITS

Number	27
Claim	€ 27.302 million
Provision	€ 4.656 million

OTHER LAWSUITS

Number	632
Claim	€ 151.130 million
Provision	€ 14.463 million

Note that at Banca Popolare di Spoleto there are about thirty counterclaims for a total of around € 5.9 million (the number of disputes and total claims are included in the summary table above) filed against BPS during credit recovery lawsuits initiated by the bank itself on the assets side for a total of around € 5.2 million. These disputes were taken into account during the valuation of the related credit exposures (for around € 0.42 million).

SIGNIFICANT LAWSUITS (CLAIMS HIGHER THAN € 1 MILLION)

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

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

- CLAIM € 45.608 million. By writ of summons, the counterparty in Extraordinary Administration brought legal proceedings against Banco di Desio e della Brianza S.p.A. and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of € 45.608 million as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. Banco di Desio e della Brianza S.p.A. appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, the counterparty appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. With judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty in its entirety. By application filed on 06.06.2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;

- CLAIM: € 2 million - By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A. paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;

- CLAIM € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court;

- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.;

- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose draft report appears to be in favour of Banco Desio della Brianza S.p.A.;

- CLAIM € 10.000 million. The company opposed the injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco di Desio e della Brianza S.p.A. of an amount of Euro 10 million for damages sustained by way of capital reduction and for damage to the company's reputation. The claim for damages was justified by the counterparty as a consequence of an illegitimate withdrawal of banking facilities and for having been consequently reported to Central Risks. The case is currently being decided;

- CLAIM € 1.818 million. The plaintiff was declared bankrupt in 2015 after being admitted to the Extraordinary Administration Procedure in 2011. A summons has been notified to Banco di Desio e della Brianza S.p.A. concerning the bankruptcy clawback of € 1.818 million. The officials of the bankruptcy proceedings decided to sue, contesting certain movements that seemed to indicate anomalous activity on the plaintiff's account;

- CLAIM € 1.610 million: This is a form of opposition to an injunction, which is a preliminary step prior to the start of the property enforcement. The surety guarantor pleads that Banco Desio does not have any right to act by way of enforcement against the guarantor and challenges the nullity of notification of the injunction, the invalidity of the claim for payment against it and pleads for an ouster from the joint obligation under the surety. The guarantor also demands damages for alleged reckless dispute, quantified as 10% of the amount disputed by the Bank.

- CLAIM € 3 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations would have allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank opposed by pleading the invalidity of the summons from various points of view, the statute of limitations for claims and the Official Receiver's lack of legal standing. The judge approved the conclusions without accepting the preliminary motions. The suit has been decided. The Court of Terni rejected the plaintiff's claim that was challenged before the Court of Appeal of Perugia. The Bank had a full right to appeal. The Court said that it would pronounce later on the preliminary requests;

- CLAIM € 1.933 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations would have allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum € 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The Official Receiver's legal standing was also contested;

- CLAIM € 4.7 million: the Receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia for it to be ordered to refund € 4.7 million. The Receiver assumes that the Bank permitted an abnormal transaction to be carried out by a person not entitled to do so on behalf of the company. The Bank is disputing the legitimacy of the Receiver, the total groundlessness of the claims, as well as the existence of a causal link between the conduct of BPS and the bankruptcy of the company;

- CLAIM € 1.461 million: with an appeal served in 2013, a former employee appealed against the interruption of his employment contract by Banca Popolare di Spoleto S.p.A., asking for the Bank to be condemned to pay the salary disparity allegedly not paid, his re-employment or, as an alternative, an order to pay damages. The Bank appealed, arguing the legality of the dismissal which was for serious acts performed by the former employee;

- CLAIM € 1.526 million: by writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza S.p.A. before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. At the hearing on 24 September 2015 regarding the exception of capacity to be sued raised by the Bank (following the transfer to Banca Popolare di Spoleto S.p.A., under the extraordinary transaction involving the business unit made up of 32 branches, of the branch where the person was employed) the presence of BPS was requested and authorised in the dispute, so it appeared in court for the trial;

- CLAIM € 1.573 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to obtain an ordinary revocation of two sale agreements of loans to the City of Umbertide. The judge rejected the preliminary motions of the Receivership and scheduled the hearing of the conclusions;

- CLAIM € 2.305 million: the receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) € 1.904 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) € 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question;

- CLAIM € 10.421 million: the counterparty proposed proceedings under art. 67 of the bankruptcy law in order to obtain repayment of the sum of € 10.412 million represented by the remittances collected in the period between 14 October 2007 and 14 October 2008 (i.e. in the year prior to admission to the extraordinary administration procedure) on accounts held by the counterparty at the Bank. By order issued by the Court of Ancona on 20/06/15, the Judge, believing that the question of the exception of prescription or limitation can be decided solely on merit, and considering the suitability of the chronological ticket affixed by the bailiff on the writ of summons as proof of timely delivery, even if it lacked a signature, ordered the case to be put under investigation again for completion of the expert opinion;

- CLAIM € 7.310 million: with a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto S.p.A. together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2/12/2009, and therefore about three years before the declaration of bankruptcy (judgement 21/3/2013), Banca Popolare di Spoleto, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or public administration, for an amount of € 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The judge rejected all of the preliminary instances proposed by the Receivership. The case is currently being decided.

- CLAIM € 1.744 million: the company, as well as the guarantors, sued Banca Popolare di Spoleto S.p.A. before the Court of Spoleto in order to hear, ascertain and declare the application of usurious interest, asking the Court for payment by the Bank of € 338 thousand for interest allegedly not due, in addition to € 169 thousand by way of damages for the company and € 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith;

- CLAIM € 3.3 million: In an opposing writ, the counterparty sued Banca Popolare di Spoleto, asking for the Bank and the other three counterparties to be sentenced to pay damages for a total of € 3.3 million. The Bank promptly appeared in court to contest all claims and exceptions.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of BPS, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of BPS resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. The next hearing is scheduled for 22 September 2016. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately € 30 million, broken down according to their respective responsibilities.

TAX LITIGATION

As regards tax litigation, there were no new disputes in the first half of 2016 and there were no developments with regard to those pending. The provision for risks and charges at 30 June 2016 is therefore appropriate since there are nothing to suggest trends that differ from the estimates, especially with regard to possible claims against the Parent Company for 2011 in relation to the "transfer pricing" issue, as mentioned in the notes to the financial statements at 31 December 2015.

*** * ***

Banca Popolare di Spoleto, as jointly liable, has taken steps to maintain appropriate funds set up with reference to penalties imposed to two employees that the Ministry of Economy accused of money laundering (in accordance with Law 197/91) for events dating back to 2005 and 2006 of which the Bank only became aware in 2008. The hearing of the conclusions has been scheduled for 16/11/2017.

Quantitative information

The number of detrimental events recorded by the Group in the course of the first half of 2016, comes to 1066. The result of the process of collecting adverse events is summarised in the table below (monetary amounts are expressed in thousands of euro):

Event type	No. events	% events	Gross loss	% of total	Net loss	% of total	Recoveries	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	4	0.38%	27	0.87%	27	0.88%	0	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	55	5.16%	277	9.03%	267	8.73%	10	3.66%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	6	0.56%	117	3.82%	117	3.83%	0	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	189	17.73%	1,137	37.11%	1,137	37.26%	0	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	16	1.50%	23	0.74%	23	0.75%	0	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	4	0.38%	27	0.89%	27	0.90%	0	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	792	74.30%	1,457	47.54%	1,455	47.66%	2	0.15%
TOTAL Gruppo Banco Desio e della Brianza	**1,066**	**100.00%**	**3,065**	**100.00%**	**3,053**	**100.00%**	**12**	**0.40%**

The gross operating loss comes to € 3.065 million, for which prudent provisions were made during the year of € 2.294 million. Of the total gross loss, an amount was recovered of € 12 thousand, resulting in a net loss of € 2.82 million.

INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

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

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

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

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

B. Quantitative information

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

Captions	Banking Group	Insurance companies	Other businesses	Consolidation adjustments and eliminations	30.06.2016
Share capital	125,446				125,446
Share premium reserve	31,570				31,570
Reserves	726,474				726,474
- revenue reserves:	708,862				708,862
a) legal reserve	90,199				90,199
b) statutory reserve	517,290				517,290
c) reserve for treasury shares					
d) other	101,373				101,373
- other	17,612				17,612
Equity instruments					
(Treasury shares)	(51)				(51)
Valuation reserves:	16,499				17,267
- Financial assets available for sale	(179)				(179)
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash-flow hedges	(2,830)				(2,830)
- Exchange differences					
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(3,388)				(3,388)
- Portion of valuation reserves relating to investments carried at equity				768	768
- Special revaluation laws	22,896				22,896
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	22,959				22,959
Shareholders' equity	**923,665**				**923,665**

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

Assets/Amounts		Banking Group		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		3,875	(599)							3,875	(599)
2. Equity instruments		397	(15)							397	(15)
3. Mutual funds		372	(4,019)							372	(4,019)
4. Loans											
Total	**30.06.2016**	**4,644**	**(4,633)**							**4,644**	**(4,633)**
Total	**31.12.2015**	**4,700**	**(4,639)**							**4,700**	**(4,639)**

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

The scope of consolidation, defined in accordance with current prudential regulations, includes companies that have the following characteristics:

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

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

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

2.2 Own Funds

A. Qualitative information

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

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

As at 30 June 2016, Banco Desio Group's Own Funds consist of the following:

Description	30.06.2016	31.12.2015
Common Equity Tier 1 (CET 1)	€ 868,826	€ 860,154
Additional Tier 1 capital (AT1)	€ 10,170	€ 10,568
Tier 2 capital (T2)	€ 214,313	€ 235,348
Total Own Funds	€ 1,093,309	€ 1,106,070

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

1. Common Equity Tier 1 - CET 1

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

2. Additional Tier 1 - AT1

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

3. Tier 2 - T2

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

B. Quantitative information

Own Funds

	30.06.2016	31.12.2015
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	891,882	884,433
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	- 130	- 291
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	891,752	884,142
D. Items to be deducted from CET 1	22,848	24,738
E. Transitional provisions – Impact on CET 1 (+/-)	- 78	750
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	868,826	860,154
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	14,124	13,862
of which: AT1 capital instruments subject to transitional provisions	6,865	6,865
H. Items to be deducted from AT1	-	-
I. Transitional provisions – Impact on AT1 (+/-)	- 3,954	- 3,294
L. Total Additional Tier 1 (AT1) (G - H +/- I)	10,170	10,568
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	213,666	234,424
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	647	924
P. Total Tier 2 (T2) (M - N +/- O)	214,313	235,348
Q. Total Own Funds (F + L + P)	1,093,309	1,106,070

2.3 Capital adequacy

A. Qualitative information

Banco Desio Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 79.47% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.93% and 19.60%, respectively, of Own Funds.

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

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

- CET 1/ risk-weighted assets 10.768%
- T1/risk-weighted assets 10.894%
- Total Own Funds/risk-weighted assets 13.550%

These figures are again well above the Group's minimum requirements as requested at the end of the Supervisory Review and Evaluation Process (SREP) by the Bank of Italy in August 2015, which confirmed the following minimum levels for the consolidated capital ratios:

- CET 1/ risk-weighted assets 7.000%
- T1/risk-weighted assets 8.500%
- Total Own Funds/risk-weighted assets 10.500%

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

B. Quantitative information

Categories/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	30.06.2016	**31.12.2015**	**30.06.2016**	**31.12.2015**
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	**12,717,333**	**12,502,276**	**7,227,519**	**7,089,800**
1. Standardised methodology	12,716,864	12,501,738	7,227,050	7,089,262
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	469	537	469	537
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			**578,202**	**567,184**
B.2 Risk of credit valuation adjustment			**1,543**	**1,828**
B.3 Regulatory risk				
B.4 Market risks			**725**	**441**
1. STANDARDISED METHODOLOGY			725	441
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.5 Operational risk			**65,042**	**65,042**
1. BASIC APPROACH			65,042	65,042
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.6 Other items			0	0
B.7 Total precautionary requirements			**645,512**	**634,495**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**8,068,899**	**7,931,181**
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			10.768%	10.845%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			10.894%	10.978%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			13.550%	13.946%

For the purpose of calculating point C "Risk assets and capital ratios" the EU regulation provides for a facilitated weighting (with a support factor of 0.7619) for Small and Medium-sized Enterprises (SMEs).

TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

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

Related party disclosures

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

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

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[2];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group during the period,

there have been no transactions worth mentioning. As regards transactions with the subsidiary Banca Popolare di Spoleto SpA, reference should be made to the report on operations at 31 December 2015.

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

In this context, there are no transactions outstanding at 30 June 2016 that present particular risk profiles compared with those considered part of the normal course of business or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code (including those treated in accordance with art. 136 CBA in compliance with the rules currently in force, including internal ones), highlighting, in particular, the balance of current account relationships and of the securities portfolio at the end of the first half of 2016 and, lastly, any relationships for the provision of services or of any other nature.

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

I - Parent company

At the end of the first half of 2016, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SApA at Banco Desio amounted to Euro 114.4 million, of which Euro 111.5 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

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

II – Associates

At the end of the first half of 2016, there is also an investment in the associate **Chiara Assicurazioni SpA**, in which a 32.7% interest is currently held.
At the end of the half-year, payables (to customers) amounted to Euro 59.3 million, of which Euro 57.7 million relating to securities portfolios; a credit line of Euro 10,000 has been given to the company.

The contractual relationships with Chiara Assicurazioni SpA maintained by the Bank and its subsidiary Banca Popolare di Spoleto SpA essentially consist of contracts for the distribution of insurance products in the non-life sector.

The amounts of assets/liabilities and income/costs arising from transactions with this company are disclosed in the Explanatory notes under Section 10 - Equity investments.

Note that the sale of the Bank's entire investment in Istifid SpA to Unione Fiduciaria was completed on 2 May 2016.

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2016 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA in compliance with current internal regulations), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted by Group banks on 34 outstanding positions at 30 June 2016 amounted to approximately Euro 8 million. The related drawdowns amounted to a total of about Euro 5.3 million in loans to customers.

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

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 30 June 2016 amounted to Euro 118 million in amounts due to customers (including approximately Euro 82.8 million in securities portfolios).

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

Balance at *30.06.2016* (in €/million)	*Related parties pursuant to art. 53 CBA (including parties treated in accordance with art. 136 CBA) and/or art. 2391- bis of the Civil Code (other than the Parent Company and subsidiaries/associates)*
Lending transactions:	
Amount granted	**8**
Amount drawn down	**5.3**
Funding transactions:	
C/c and d/r amount (a)	**35.2**
Amount of securities portfolios (b)	**82.8**
Total (a+b)	**118**

With reference to the Supplementary Pension Fund for the Employees of Banco Desio - now in liquidation as a result of the formalisation on 16 October 2015 of the union agreement relating to its dissolution to join another preferred Fund - at the end of the period, payable balances amounted to Euro 44,252. There are no securities in the portfolio.

* * *

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

EQUITY-BASED PAYMENTS

EQUITY-BASED PAYMENTS

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

SEGMENT REPORTING

SEGMENT REPORTING

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

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

This chapter summarises the results of the Group's segments described below:

- *commercial bank*: this includes the activities geared to customers relating to the traditional banking operations and activities on the securities portfolio and the market. It also includes services, which are transversal activities carried out to support operations to ensure production efficiency and organisational consistency.
- *asset management:* this includes the activities carried out by Rovere S.A. in the comparative period, when the company had not yet been put into liquidation;
- *assets held for sale/liquidation:* this shows the first-half 2016 results of Rovere S.A. in liquidation, as well as those of Banca Credito Privato Commerciale S.A. in liquidation for the comparative period.

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

Income statement	**30.06.2016**	**Commercial bank**	**Asset Mng**	**Assets held for sale/in liquidation**
Net profit from financial and insurance activities (1)	228,308	227,539		769
Fixed costs (2)	(159,809)	(159,589)		(220)
Provisions and adjustments (3)	(45,170)	(44,926)		(244)
Profit (loss) from equity investments carried at equity	5,104	5,104		
Gains (losses) on disposal of investments				
Profit (loss) from current operations before tax	**28,433**	**28,128**		**305**

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

Balance sheet	**30.06.2016**	**Commercial bank**	**Asset Mng**	**Assets held for sale/in liquidation**
Financial assets	2,144,431	2,144,431		
Due from banks	230,320	229,431		889
Loans to customers	9,401,401	9,401,390		11
Due to banks	993,963	993,963		
Due to customers	8,451,271	8,451,163		108
Debt securities in issue	1,574,323	1,574,323		
Indirect deposits, under administration and management	13,087,381	13,087,381		

Income statement	**30.06.2015**	**Commercial bank**	**Asset Mng**	**Assets held for sale/in liquidation**
Net profit from financial and insurance activities (1)	255,287	252,980	2,032	275
Fixed costs (2)	(156,587)	(154,918)	(371)	(1,298)
Provisions and adjustments (3)	(77,920)	(77,990)		70
Profit (loss) from equity investments carried at equity	1,557	1,557		
Gains (losses) on disposal of investments				
Profit (loss) from current operations before tax	**22,337**	**21,629**	**1,661**	**(953)**

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

Balance sheet	**31.12.2015**	**Commercial bank**	**Asset Mng**	**Assets held for sale/in liquidation**
Financial assets	1,901,770	1,901,770		
Due from banks	292,992	248,567		44,425
Loans to customers	9,386,311	9,386,300		11
Due to banks	753,115	753,115		
Due to customers	8,244,110	8,244,002		108
Debt securities in issue	1,918,104	1,918,104		
Indirect deposits, under administration and management	12,310,102	12,284,303	25,799	

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

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

1. The undersigned, Tommaso Cartone, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 *bis* of Legislative Decree 58 of 24 February 1998:

   - the adequacy with respect to the Company and their
   - effective application

   of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements during the first half of 2016.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements at 30 June 2016 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

   3.1 the condensed consolidated interim financial statements:

   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;

   b. agree with the books of account and accounting records;

   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

   3.2 The interim report on operations includes a reliable analysis of significant events that took place during the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Desio, 4 August 2016

Chief Executive Officer	Financial Reporting Manager
Tommaso Cartone	*Mauro Walter Colombo*

AUDITORS' REPORT

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REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

Introduction

We have reviewed the condensed interim consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco Desio Group"), which comprise the consolidated balance sheet as of June 30, 2016 and the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the consolidated cash flow statement for the six-month period then ended and the related explanatory notes. The Directors are responsible for the preparation of this condensed interim consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
August 5, 2016

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