# Interim consolidated financial statements at 30 June 2015

Gruppo Banco Desio

# Contents

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

## Board of Directors

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

** Members of the Executive Committee*

## Board of Statutory Auditors

| | |
|---|---|
| Chairman | Eugenio Mascheroni |
| Acting Auditors | Rodolfo Anghileri<br>Giulia Pusterla |
| Substitute Auditors | Giovanni Cucchiani<br>Paolo Pasqui<br>Elena Negonda |

## General Management

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

## Financial Reporting Manager as per art. 154-bis CFA

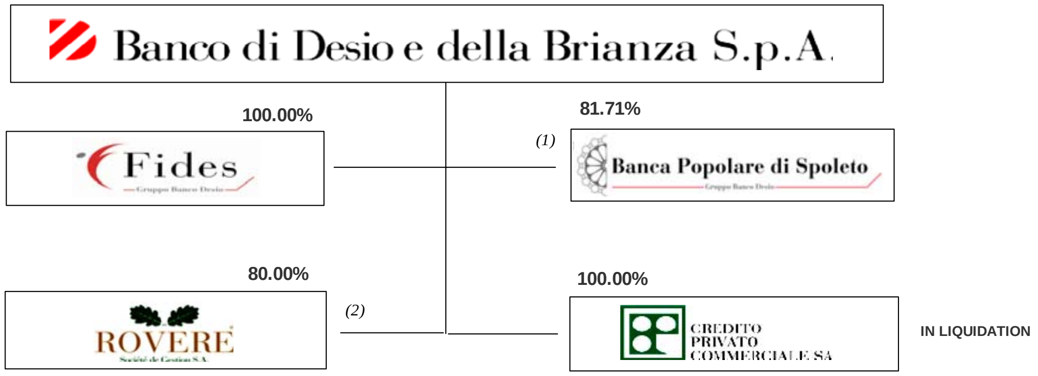
| | |
|---|---|
| Financial Reporting Manager | Mauro Walter Colombo |

## Independent Auditors

| | |
|---|---|
| Independent Auditors | Deloitte & Touche S.p.A. |

# The Banco Desio Group

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




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

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

# Introduction

This consolidated interim financial report at 30 June 2015 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*.

Following the acquisition of control of Banca Popolare di Spoleto S.p.A., which took place with effect from 1 August 2014 (the date of appointment of the new corporate bodies after closure of the Extraordinary Administration procedure that took place on 31 July 2014); this company has been included in the scope of consolidation.

In consideration of the above, note that the Group's consolidated financial statements at 30 June 2014 did not include the balance sheet and income statement of Banca Popolare di Spoleto S.p.A.; the two periods are not comparable as a result.

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

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

# Interim consolidated report on operations at 30 June 2015

# 1. Key figures and ratios

## Balance sheet

| Amounts in thousands of Euro | 30.06.2015 | 31.12.2014 | Change amount | % |
|---|---|---|---|---|
| Total assets | 12,094,076 | 12,563,670 | -469,594 | -3.7% |
| Financial assets | 1,707,292 | 1,905,058 | -197,766 | -10.4% |
| Due from banks | 196,050 | 288,282 | -92,232 | -32.0% |
| Loans to customers | 9,500,886 | 9,666,900 | -166,014 | -1.7% |
| *of which: Loans to ordinary customers* | *9,406,016* | *9,468,539* | *-62,523* | *-0.7%* |
| *of which: Loans to institutional customers* | *94,870* | *198,361* | *-103,491* | *-52.2%* |
| Property, plant and equipment | 183,509 | 185,887 | -2,378 | -1.3% |
| Intangible assets | 18,044 | 18,384 | -341 | -1.9% |
| Due to banks | 728,207 | 1,017,467 | -289,260 | -28.4% |
| Due to customers | 7,584,752 | 7,444,025 | 140,727 | 1.9% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 2,339,393 | 2,822,378 | -482,985 | -17.1% |
| Shareholders' equity (including Net profit/loss for the period) (1) | 850,232 | 845,627 | 4,605 | 0.5% |
| Own funds | 1,063,598 | 990,763 | 72,835 | 7.4% |
| Total indirect deposits | 12,687,002 | 12,559,667 | 127,335 | 1.0% |
| *of which: Indirect deposits from ordinary customers* | *8,879,881* | *8,694,528* | *185,353* | *2.1%* |
| *of which: Indirect deposits from institutional customers* | *3,807,122* | *3,865,139* | *-58,017* | *-1.5%* |

## Income statement (2)

| Amounts in thousands of Euro | 30.06.2015 | 30.06.2014 | Change amount | % |
|---|---|---|---|---|
| Operating income | 238,539 | 197,435 | 41,104 | 20.8% |
| *of which: Net interest income* | *137,681* | *102,136* | *35,545* | *34.8%* |
| Operating costs | 134,144 | 104,276 | 29,868 | 28.6% |
| Result of operations | 104,395 | 93,158 | 11,237 | 12.1% |
| Net profit (loss) from operations after tax | 20,609 | 23,791 | -3,182 | -13.4% |
| Non-recurring profit (loss) after tax | -2,241 | 7,358 | -9,599 | n.s. |
| Net profit for the period (1) | 18,710 | 31,103 | -12,393 | -39.8% |

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

# Balance Sheet and Income Statement Ratios

| | 30.06.2015 | 31.12.2014 | Change Amount |
|---|---|---|---|
| Capital/Total assets | 7,0% | 6,7% | 0,3% |
| Capital/Loans to customers | 8,9% | 8,7% | 0,2% |
| Capital/Due to customers | 11,2% | 11,4% | -0,2% |
| Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 36,3% | 30,0% | 6,3% |
| Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) | 10,6% | 10,3% | 0,3% |
| Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) | 10,7% | 10,5% | 0,2% |
| Total Own Funds/Risk-weighted assets (Total capital ratio) | 13,2% | 12,3% | 0,9% |
| Financial assets/Total assets | 14,1% | 15,1% | -1,0% |
| Due from banks/Total assets | 1,6% | 2,3% | -0,7% |
| Loans to customers/Total assets | 78,6% | 76,9% | 1,7% |
| Loans to customers/Direct customer deposits | 95,7% | 94,2% | 1,5% |
| Due to banks/Total assets | 6,0% | 8,1% | -2,1% |
| Due to customers/Total assets | 62,7% | 59,3% | 3,4% |
| Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total ass | 19,3% | 22,5% | -3,2% |
| Direct customer deposits/Total assets | 82,1% | 81,7% | 0,4% |

| | 30.06.2015 | 30.06.2014 | Change Amount |
|---|---|---|---|
| Cost/Income ratio | 56,2% | 52,8% | 3,4% |
| Net interest income/Operating income | 57,7% | 51,7% | 6,0% |
| Result of operations/Operating income | 43,8% | 47,2% | -3,4% |
| Profit (loss) from operations after tax/Capital [(3)] - annualised [(4)] | 5,0% | 2,6% | 2,4% |
| Profit (loss) from operations after tax/Capital [(3)] (R.O.E.) - *annualised* [(4)] | 4,5% | 5,0% | -0,5% |
| Profit (loss) from operations before tax/Total assets (ROA) - *annualised* [(4)] | 0,4% | 0,3% | 0,1% |

| | 30.06.2015 | 31.12.2014 | Change Amount |
|---|---|---|---|
| Doubtful loans/Loans to customers | 4,6% | 4,4% | 0,2% |
| Impaired loans/Loans to customers | 9,2% | 8,8% | 0,4% |
| % Coverage of doubtful loans [(5)] | 56,3% | 58,5% | -2,3% |
| % Coverage of doubtful loans, gross of cancellations [(5)] | 63,2% | 65,2% | -2,0% |
| % Total coverage of impaired loans [(5)] | 46,2% | 48,1% | -1,9% |
| % Coverage of impaired loans, gross of cancellations [(5)] | 51,8% | 53,7% | -1,9% |
| % Coverage of performing loans | 0,72% | 0,65% | 0,08% |

# Structure and productivity ratios

| | 30.06.2015 | 31.12.2014 | Change amount | Change % |
|---|---|---|---|---|
| Number of employees | 2.429 | 2.474 | -45 | -1,8% |
| Number of branches | 279 | 279 | | |
| *Amounts in thousands of Euro* | | | | |
| Loans and advances to customers per employee (6) | 3.876 | 3.907 | -31 | -0,8% |
| Direct deposits from customers per employee (6) | 4.048 | 4.150 | -102 | -2,5% |

| | 30.06.2015 | 30.06.2014 | Change amount | Change % |
|---|---|---|---|---|
| Operating income per employee (6) - annualised (4) | 195 | 175 | 20 | 11,4% |
| Result of operations per employee (6) - annualised (4) | 85 | 76 | 9 | 11,8% |

(3) *equity excluding net profit (loss) for the period;*
(4) *for the annualised figure at 30.06.2014 we have used the closing balance at 31.12.2014;.*
(5) *also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., shown gross of write-downs;*
(6) *at 30.06.2015 based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period; at 31.12.2014 based on the number of employees at the year end, as the straight average is not significant following the inclusion of Banca Popolare di Spoleto S.p.A. in the Group.*

# 2. The macroeconomic scenario

*International scenario*

There was a slight improvement in economic activity during the second quarter of 2015: in April, world trade posted rising values (+0.3% m/m, versus -0.1% in March, and +1.5% y/y). Overall, the world economy remains fragmented. In Europe, despite the appearance of factors supporting recovery in the first quarter of 2015 (depreciation of the euro, quantitative easing, fall in oil prices), the impasse in negotiations between Europe and Greece means Greece's risk of default remains high and could be contagious to weaker economies, thus fuelling uncertainty about growth prospects in the Eurozone. In the first weeks of July, Greece reached an agreement with the European Union: the country's default has been averted, at least for the time being, thanks to drastic but necessary reforms (tax and social security, in particular). However, the recent agreement has opened a new phase, in which Greece could face a change of government: Greece's fundamentals, therefore, remain weak, as the economy has reduced the deficit on its external accounts more because of the crisis and the consequent fall in imports than for a strengthening of its production structure.

In the United States, the economic recovery currently underway is more fragile than expected, being linked to labour productivity rather than investment. The emerging nations showed strong heterogeneity among the major economies, as previously seen in 2014: Russia and Brazil are in a severe crisis, China has need of more widespread support for its economic policy and India has good dynamics of economic growth.

Inflation in industrialised nations remains low (as of June, the rate for the Eurozone was +0.3%), whereas in emerging nations there is a risk of rising prices as a result of a sharp depreciation of their local currencies; even though the internal conditions of their economies required support from economic policy, the governments of these countries (Russia, Brazil, Argentina and Indonesia) have in fact increased their policy rates on several occasions.

The weakness of the international environment is having an impact on Europe and Italy: the sources of uncertainty have increased and the downside risk remains high. However, at present, the first half of 2015 has been characterised by rising confidence on the part of households and businesses. Expectations for the second half of the year foresee a recovery of competitiveness favoured by low interest rates, falling oil prices (linked to the recent nuclear deal between the UN and Iran) and the weakness of the euro, which should act as a stimulus to household spending and more exports to other advanced economies.

*United States*

The economic indicators for the first few months of 2015 have been confirmed by official statistics: at the end of the first quarter of 2015, GDP fell into the doldrums (-0.2%, versus +0.6%). The OECD's leading indicator suggests that the outlook for the economy could remain weak in the coming months. Only capital investment accelerated, whereas exports and production expenditure declined. In May and June, there was an improvement in household confidence and in the ISM indices (Institute of Supply Management) for buyers in industry and the service sector; industrial production in May fell, reflecting the difficult recovery in non-residential investment also in the second quarter. On the labour market, the increase in employment continues, but the decline in the unemployment rate in June (5.3%, versus 5.5% in March) was due to a reduction in the labour force. Inflation in May has remained close to zero (core inflation - excluding food and energy - stands at +1.7%). The recovery in employment and higher real disposable income are helping to boost consumer spending, while economic indicators are anticipating a further improvement in the housing market. Overall, the relative strength of the dollar and the weakness in foreign demand in the second half of 2015 will continue to penalise exports, which combined with the uncertainty about the first rise in interest rates will help keep spending on productive investments subdued, so they will have to be sustained by household consumption and the improvement in the global context. Thanks to the fact that energy prices did not fall like they did in 2014 and thanks to the recovery in wages and salaries (which will be transferred to inflation given the low level of productivity), consumer price inflation is expected to come in at +2% during 2016, creating the conditions for interest rates to start rising again.

*Japan*

In the first quarter of 2015, GDP grew by 0.6%, mainly thanks to the trend in domestic demand. As in previous surveys, household consumption has continued to rise by 0.4% on the previous quarter: the latest figures show an increase in real disposable income that could support such spending in the coming quarters as well. Retail sales in April and May showed a year-on-year increase for the first time (+1.8%). The competitiveness achieved by the depreciation of the yen generated positive trends in exports (+2.8%) and imports (+2.9%) in the first quarter, though in May the former showed the first signs of decline, partly due to the difficulties of the automotive sector. The industrial production and services fell slightly in May. Overall, the economic situation is showing signs of an economic recovery that does not appear to be very robust: growth is moderate and foreign demand is gradually weakening. The trend in inflation and the limits of public finances make it likely that the expansionary monetary policy will continue. At the end of 2015, Japanese GDP is expected to increase (+1%), thanks to the contribution of exports (+0.7%) and private consumption (+0.3%).

*Emerging Economies*

In *Russia*, the slowdown in the economy continued during the first quarter of 2015 (-1.3%) due to a marked decline in consumer spending (-9%), capital investment (-4.2%) and imports (-22%). The drop in consumer spending is linked to a fall in real incomes (-5% in May) in addition to the high interest rates that discourage the debt that supported consumption in past years. Weak demand has helped ease inflation (15.8% in May, down from 17% in March), penalised by depreciation of the rouble and trade sanctions: the Central Bank has cut the official interest rate several times, but it still remains high (11.5%). The decline in capital investment continues, especially in the building sector, although the mining sector posted growth (+15%), helped by the decline in the cost of money and the moderate recovery in oil prices. The public deficit (-5.5%) does not allow the government to take public spending measures to revive investment and consumption.

The prospects for the end of 2015 are not positive: inflation, financing difficulties, falling confidence and trade barriers will all hit consumption and investment severely, leading to a recession (-3.4%) that could drag on into 2016 if there is no change in relations with the West.

In *China*, in contrast with recent data provided by the National Office of Statistics and confirmed by the government (GDP growth of 7%), there is currently a slowdown in the economy due to weak domestic demand and lower business activity. Manufacturing output grew less than in previous surveys (+6.1%), as did gross capital expenditure (+10%), bolstered mainly by investment in the service industry. Even though retail sales have held up well (+10%), it seems unlikely that internal consumption can adequately support growth in GDP given the weakness in foreign demand. Critical issues emerged in recent weeks which the Central Bank and the authorities are trying to mitigate with expansionary monetary policies, as evidenced by the trend in share prices on the Shanghai and Shenzhen stock exchanges; after index losses of around 30%, the Central Bank decided to lower interest rates by 0.25% and the reserve ratio by 0.50%, while taking steps together with the Government to ban short selling by various operators. In fact, as regards monetary issues, this is the umpteenth expansive stimulus to restore credit to the economy, without running the risk of speculation. In parallel to these questions of monetary policy, a second major issue concerns the debt of local governments on which the Central Government has intervened with a series of measures to extend due dates. The strong wage growth recorded at the end of 2014 (+9%) is positively influencing consumption but, at the same time, it is creating employment problems in coastal areas of the country in favour of those in the process of industrialisation.

In *India*, GDP grew during the first quarter of 2015 (+2.1%) more than in the previous quarter (+1.4%). While government spending has contracted (-2.3%), private domestic demand has supported economic growth in consumption (+1.5%) and investment (+0.5%). With regard to foreign trade, both exports and imports decreased during the quarter (-5.6% and -6% respectively). The economic situation in the country remains positive overall, thanks to national and international factors. The low level of raw material prices (fuel in particular), together with the relative stability of the currency, is making it possible to hold down inflation and boost the purchasing power of households, also creating room for manoeuvre in terms of monetary policy. In early 2015, the Central Bank repeatedly cut its policy rate (now at 7.25%), although it is ready for the adoption of restrictive policies in line with the impact of domestic agricultural prices and international conditions on the capital market. The country still has issues concerning public finances, not so much tied to the amount of the overall deficit, but to the allocation of expenditure, the current component of which has increased to the detriment of capital investment. The thrust of the reforms currently underway should further improve growth prospects for the coming years (in the region of +6% per year), which should be helped by the effects of lower oil prices.

*Latin American countries* continue to feature high inflation following depreciation of their currencies; at the same time, low raw material prices reduce the proceeds, resulting in a deterioration of public finances and restricting economic growth.

In the first quarter of 2015, Brazil's GDP contracted (-0.2%) due to widespread weakness in all internal spending items, not offset by net exports. Mexico is also decelerating because of the slowdown in the US economy and low oil prices. Argentina and Venezuela are still in a position of deep crisis: Argentina's presidential election (scheduled for October) has left the economic context more or less in a state of stagnation; in Venezuela, the government's desire to focus on reducing its foreign debt limits the resources allocated in the country, with a subsequent deterioration in the socio-economic conditions of the population. In all countries, economic policy remains restrictive to counter inflation (+8.5% in Brazil, +3% in Mexico, +15.7% in Argentina) and the decline in confidence on the part of international markets.

*Europe*

Despite the resilience of domestic demand, the economic recovery in the Eurozone is proceeding with difficulty because of the Greek crisis and the weak state of the global economy. Inflation continues to remain at particularly low levels: in May, however, consumer prices increased (+0.3%); inflation came to +0.8%, net of the more volatile elements (having been +0.6 in May). In the first quarter of 2015, GDP in the Eurozone grew by 1.5% year on year, mainly thanks to positive contributions by Germany (+1%) and France (+0.8%). In April, both industrial production and new manufacturing orders increased year on year by 0.8% and 2.6%, respectively. Retail sales also posted a positive annual change (+0.2% in May). This growth is largely due to the improvement in confidence on the part of households and companies, though for the latter the OECD's leading economic indicators remain weak. In May, the unemployment rate remained stable (11.1%).

In terms of monetary policy, the Quantitative Easing programme initiated by the ECB earlier this year to counter the fall in inflation and avert the threat of contagion on price and wage dynamics partly cushioned the volatility of financial markets at the end of June to coincide with the aggravation of the Greek crisis: having reached a low at the end of February, peripheral countries' spreads against the Bund started to widen as confirmation arrived of the difficulties encountered in reaching an agreement between Greece and its creditors. In late June, with Greek banks risking default and the spectre of Grexit, the yield of ten-year Bunds rose from a low of 0.10% in April to 0.83%, while that of Greek bonds rose vertically, from 12% to more than 30%. In early July, Greece reached an agreement with the European Union and its default has been averted, at least for the time being.

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

*Italy*

Having fallen in the fourth quarter of 2014 (-0.4% y/y), GDP at the end of first quarter 2015 returned to growth both on a quarterly basis (+0.3%) and on a yearly basis (+0.1 %). The increase was driven by domestic demand (+0.2%), gross capital expenditure (+0.3%) and changes in inventories (+0.5%). In May, the seasonally-adjusted index of industrial output increased compared with the previous quarter (+1%); looking at the individual sectors, those for energy and capital goods recorded the highest increases (+1.5% and +8.5%, respectively); consumer and intermediate goods also rose (+1.4% and +0.4%, respectively). Overall, new manufacturing orders showed a positive trend at the end of the quarter (+2.7%); retail sales also increased (+1.7%) thanks to an improvement in consumer confidence. As regards the labour market, the substantial government incentives offered to promote full-time employment at the end of 2014, together with the opportunities created by EXPO, have started to bear fruit. In May, the unemployment rate remained stable (+12.4%) and youth unemployment went down slightly (41.5%, on 42.6%). The harmonised index of consumer prices rose in May (+0.2%, on -0.1%), as did core inflation (+0.7%, on +0.4%).

In terms of economic policy, in July Parliament gave the final go-ahead to implementation of the BRRD (Bank Recovery and Resolution Directive 2014/59/EU). With the adoption of this Directive, the possibility of giving public aid to banks in crisis ("bail-out") has been severely limited, being replaced by the opposite mechanism ("bail-in"). This means that a financial institution in crisis will only be able to raise the capital it needs to continue its business with the help of its own providers of finance (according to a precise hierarchy): the prospect of government intervention almost completely disappears (it can only take place if at least 8% of the bank's total liabilities will be absorbed by the bail-in) with a consequent increase in the cost of capital, especially for the banks most at risk.

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

*Capital markets and the banking system in Italy*

In June, both the European Central Bank and the Federal Reserve kept their policy rate the same (at 0.05% and in a range between 0 and 0.25%, respectively). However, the Federal Reserve has said that it is open to a possible rate hike, the first in nine years.

In the first ten days of July, the 3-month Euribor was negative and at an all-time low (-0.01%). The 10-year IRS rate, on the other hand, came in at +1.20%, 30 basis points more than in May (+0.90%).

On the bond market, 10-year benchmark rates increased in the USA (+2.36%, having been +2.04% in March) and in the Eurozone; in Germany, the benchmark rate came to +0.58% (from +0.24% in March), while in Italy it was +1.82% (from +1.30% in March). So in June, the average yield spread between 10-year Italian and German government bonds increased to 138 bps (104 in March).

In June, international share prices decreased month on month (mainly due to the volatility generated by the Greek crisis), but increased year on year. The Dow Jones Euro Stoxx index fell by 2.5% m/m (+12.4% y/y), the Standard & Poor's 500 fell by 0.6% (+7.8% y/y) and the Nikkei 225 rose by 6.5% (+34.8% y/y). Like international share prices, the major European stock markets also showed a declining trend in June: the FTSE MIB and FTSE100 fell by 1.4% (+5.1% y/y) and by 2.9% (-0.3% y/y) respectively, the French CAC40 fell by 2.6% (+9% y/y) and the German DAX30 by 3.2% (+13.2% y/y).

The main international banking indices also replicated the performance of the main stock market indices: the Italian FTSE Banks declined by 0.4% m/m (+11.4% y/y), the Dow Jones Euro Stoxx Banks by 1.6% m/m (-0.7% y/y) and the S&P 500 Banks by 3.2% m/m (+11.6% y/y).

As regards the banking system, similarly to the previous quarter, the annual trend in funding from resident customers stabilised in June, but was still negative (-1.4% y/y versus -1.6% at the end of 2014); the trend in deposits remained positive, whereas bonds fell considerably. Observing the different components of funding by duration, a clear difference has been created between short-term and long-term sources. Deposits from resident customers (net of central counterparties) rose in June by 3.9% y/y, whereas bonds continued their substantial decline (-14.8%), a trend already seen in 2014. Foreign deposits further improved on the growth already observed in the previous quarter (+12.6%, from +8.8% in March): in fact, in 2015 they experienced a trend reversal compared with year-end 2014 (-11.6%).

The average remuneration of bank deposits came to 1.35%, decreasing again on the end of March (1.38%). The interest rate on euro deposits of households and non-financial companies came to 0.66% (0.65% in March), while the rate on bonds came to 3.05% (formerly 3.08%) and 1.08% on repurchase agreements (formerly 1.40%).

In June, bank loans to households and businesses are basically back to the same level as the previous year (-0.6%) with continuous signs of improvement month on month. In detail, this trend can be seen in total loans to residents in Italy (-0.6% y/y, formerly -1.3% in March), in loans to private sector residents in Italy (-1.1% y/y, formerly -2.1%), in loans to households and non-financial companies (-0.1% y/y, formerly -0.9%). Breaking down loans by duration, the medium/long-term component posted an annual increase (+0.3%, -0.9% in March) for the first time, whereas the short-term one remains negative (-1.2% y/y).

Overall, in the first half of 2015, the trend in loans was influenced by the performance of capital investment and the weak economic cycle: in May, gross doubtful loans grew by 15% y/y, with a percentage of total loans of +10.1% (+8.5% in March), being the highest since 1996 (+9.9%). The ratio of net doubtful loans/total loans comes to 4.62% (4.38% in March).

The number of business failures is declining for the first time after ten consecutive quarters: the latest CERVED data available (March 2015) show that in the first quarter of the year, businesses that have opened bankruptcy proceedings have decreased by 2.8% y/y; distinguishing by legal form, partnerships have shown a more pronounced decrease in bankruptcies (-12.9%) compared with other types of companies. Geographically, there has been a sharp drop in defaults in the North West (-9%) and in the South (-4.2%); in the North East, on the other hand, bankruptcies have increased (+5.1%).

Interest rates on new loans have remained low: the rate on home purchase loans to families came to 2.75% (2.76% in March). In June, the share of the flow of fixed-rate loans was 64.7% (38.1% in March). The rate on new loans to non-financial companies fell to 2.10% (2.36% in March), the lowest level since May 2010. Overall, the weighted average interest rate on total loans to households and non-financial companies in June came to 3.42% (formerly 3.56%), a further all-time low recorded in 2015.

In June, the spread between the average rates on loans and deposits amounted to 2.07%, decreasing on the previous postings (2.18% in March), but still far from the pre-crisis value (3.29% at the end of 2007).

# THE GROUP

## 3. The distribution network

The Group's distribution network al 30 June 2015 consists of 279 branches, including 149 in the Parent Company Banco di Desio e della Brianza S.p.A. and 130 of Banca Popolare di Spoleto S.p.A.

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

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

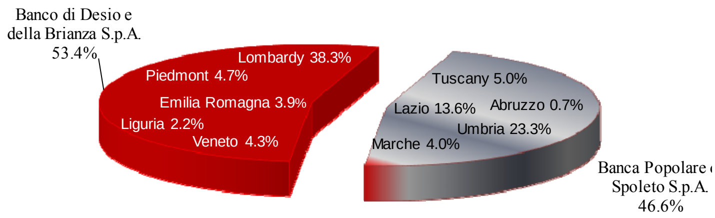
During the last year, measures were taken to restructure the Parent Company's distribution network with a view to strengthening its regional presence through structured and coordinated development as envisaged by the Corporate Affairs Department. This project consisted of the organisation of the distribution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

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

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

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

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




# 4. Significant events

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

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

In brief, the strategic measures underlying the Plan concern:

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

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

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

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

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

On 30 March 2015, an Extraordinary Shareholders' Meeting of BPS approved - as envisaged by the investment agreement executed and announced to the market on 1 April 2014 (the "Investment Agreement") - the project on which a motion had been passed on 18 December 2014 by the Board of Directors of the Parent Company and of BPS, which, in particular, effective as of 1 April 2015, led to the contribution (the "Contribution") by Banco Desio to BPS of a business unit consisting of 32 bank branches (the "Business Unit"), of which 11 branches are located in Tuscany and 21 are located in Lazio. The project allows BPS to strengthen its role in "Central Italy", particularly in Tuscany (rising from 3 to 14 branches) and in Lazio (rising from 17 to 38 branches). This should result in various kinds of benefits, mainly due to efficiency and profitability targets, benefits in terms of cost synergies and simplification, taking into account the extent to which the existing networks of the Bank and of BPS are complementary. The Contribution took place under the terms of a deed executed on 31 March 2015, effective for legal purposes as of 1 April 2015. In this regard, notification has been published in the Official Gazette pursuant to art. 58 of the CBA (also available on the websites of the Parent Company and of BPS).

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

The Extraordinary Shareholders' Meeting of BPS also approved the issue of up to 11,104,626 "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") to be allocated free of charge to the holders of BPS ordinary shares - other than Banco Desio - at a ratio of 12 BPS warrants for every 31 BPS ordinary shares held which will entitle them to subscribe newly issued BPS ordinary shares at a ratio of 1 ordinary share for every 1 BPS Warrant exercised at a subscription price of Euro 1.812 per share. The BPS Warrants will be allocated free of charge to the shareholders of BPS, other than Banco Desio (as Banco Desio has announced that it has waived its share of the allocation) and will have the following key features (i) maturity, 30 June 2017; (ii) exercise period, from 30 June 2015 to 30 June 2017; (iii) exercise ratio, 1 BPS Warrant = 1 new ordinary share; and (iv) subscription price for the conversion shares of Euro 1,812.

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

As a result of the Contribution, Banco Desio holds 128,240,177 BPS ordinary shares, equal to 81.71% of the share capital. Due to the effect of any future subscription for Conversion Shares by the owners of BPS ordinary shares, other than Banco Desio, as the result of their exercise of the Warrants allocated thereto, this holding could decrease to 76.31%.

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

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

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

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

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

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

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

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

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

On 24 June 2015, at the request of the former directors, and on 1 July, at the request of the former General Manager and most recently on 10 July, at the request of two BPS shareholders, in its capacity of counterparty, BPS was notified the appeal by each of them brought against the Bank of Italy and the MEF before the Lazio Regional Administrative Tribunal challenging the decree of 20 April 2015.

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

*Credito Privato Commerciale S.A. in liquidation*

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

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

*Operations to hedge the exchange rate risk in Swiss Franc*

In January, as a result of the decision by the Swiss National Bank to abandon the minimum exchange rate for the Swiss franc against the euro, which had been set at 1.20 since September 2011, the Bank entered into two flexible forward transactions fixing a total of 40 million Swiss francs against the euro and with an 18 month maturity, to hedge the exchange risk relating to the investment in the subsidiary Credito Privato Commerciale SA in liquidation. In order to hedge 100% of this investment of 50 million Swiss francs, in June the Parent Company carried out another transaction for 10 million Swiss francs against euro with maturity in December 2015.

*Inspections by the Bank of Italy*

The Bank of Italy carried out partial inspections at the Group between 29 September and 19 December 2014. The inspection report delivered to the Parent Company on 24 February 2015 did not give rise to any sanctions.

*Rovere S.d.G. SA*

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

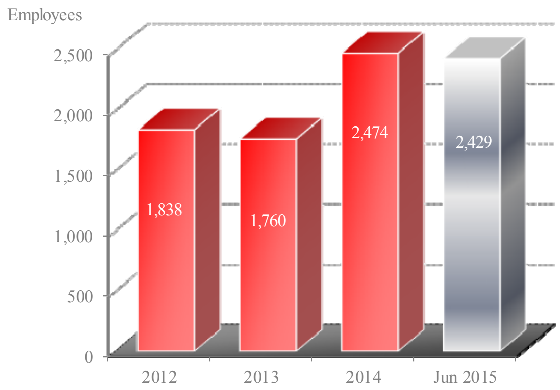
# 5. Human resources

At 30 June 2015, the Group had 2,429 employees, 45 fewer than at the end of the previous year (-1.8%).

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

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

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




The following table provides a breakdown of employees by level at the end of the first six months of 2015 compared with 2014.

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

| *No. of Employees* | 30.06.2015 | % | 31.12.2014 | % | Change Amount | Change % |
|---|---|---|---|---|---|---|
| Managers | 35 | 1.4% | 37 | 1.5% | -2 | -5.4% |
| 3rd and 4th level middle managers | 499 | 20.6% | 515 | 20.8% | -16 | -3.1% |
| 1st and 2nd level middle managers | 618 | 25.4% | 608 | 24.6% | 10 | 1.6% |
| Other personnel | 1,277 | 52.6% | 1,314 | 53.1% | -37 | -2.8% |
| **Group employees** | **2,429** | **100.0%** | **2,474** | **100.0%** | **-45** | **-1.8%** |

# 6. Results of operations

## 6.1 Savings deposits: customer assets under administration

Total customer funds under management at 30 June 2015 reached Euro 22.6 billion, representing a decrease of some Euro 0.2 billion (-0.9%) with respect to the 2014 year end balance, attributable to direct deposits, partly offset by 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**

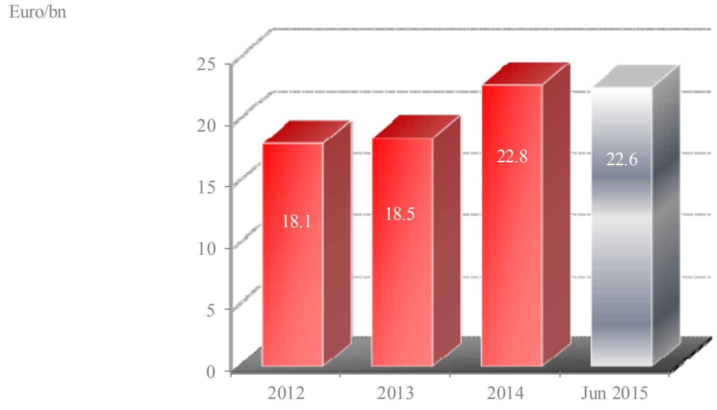
| *Amounts in thousands of Euro* | 30.06.2015 | % | 31.12.2014 | % | Change Amount | Change % |
|---|---|---|---|---|---|---|
| Due to customers | 7,584,752 | 33.5% | 7,444,025 | 32.6% | 140,727 | 1.9% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 2,339,393 | 10.4% | 2,822,378 | 12.4% | -482,985 | -17.1% |
| **Direct deposits** | **9,924,145** | **43.9%** | **10,266,403** | **45.0%** | **-342,258** | **-3.3%** |
| Ordinary customer deposits | 8,879,881 | 39.3% | 8,694,528 | 38.1% | 185,353 | 2.1% |
| Institutional customer deposits | 3,807,122 | 16.8% | 3,865,139 | 16.9% | -58,017 | -1.5% |
| **Indirect deposits** | **12,687,002** | **56.1%** | **12,559,667** | **55.0%** | **127,335** | **1.0%** |
| **Total customer deposits** | **22,611,147** | **100.0%** | **22,826,070** | **100.0%** | **-214,923** | **-0.9%** |

*Direct deposits*

Direct deposits at the end of the first six months amounted to Euro 9.9 billion, a decrease of Euro 0.3 billion due to the reduction in the balance of debt securities in issue and financial liabilities valued at fair value of Euro 0.5 billion (-17.1%) and to the rise in amounts due to customers of Euro 0.2 billion (+1.9%). The amounts due to customers represent 76.4% of direct deposit.

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

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




*Indirect deposits*

Overall, at 30 June 2015 indirect deposits recorded a rise of Euro 0.1 billion, equal to 1% of the balance at the end of the previous year, coming in at Euro 12.7 billion.

Ordinary customer deposits came to Euro 8.9 billion, representing an increase of some Euro 0.2 billion, equating to 2.1%, that was mainly attributable to the performance of assets under management (+6.9%) partly offset by assets under administration (-2.7%).

On the other hand, institutional customer deposits decreased during the period by 1.5% (-Euro 0.1 million).

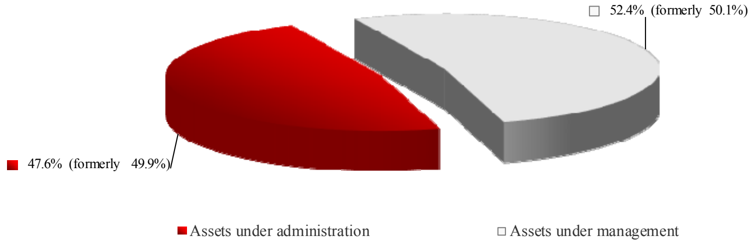
The following table provides details of the items under review, highlighting the changes that have taken place during the six-month period.

*Table no. 3* - **INDIRECT DEPOSITS**

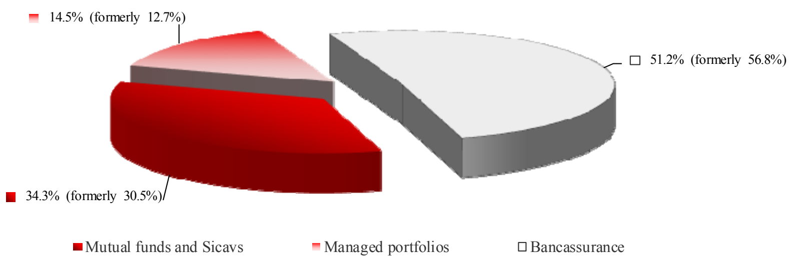
| | | | | | Change | |
|---|---|---|---|---|---|---|
| *Amounts in thousands of Euro* | 30.06.2015 | % | 31.12.2014 | % | Amount | % |
| **Assets under administration** | **4,224,699** | **33.3%** | **4,341,160** | **34.5%** | **-116,461** | **-2.7%** |
| **Assets under management** | **4,655,182** | **36.7%** | **4,353,368** | **34.7%** | **301,814** | **6.9%** |
| *of which: Mutual funds and Sicavs* | *1,595,379* | *12.6%* | *1,329,480* | *10.6%* | *265,899* | *20.0%* |
| *Managed portfolios* | *676,950* | *5.3%* | *553,136* | *4.4%* | *123,814* | *22.4%* |
| *Bancassurance* | *2,382,853* | *18.8%* | *2,470,752* | *19.7%* | *-87,899* | *-3.6%* |
| **Ordinary customer deposits** | **8,879,881** | **70.0%** | **8,694,528** | **69.2%** | **185,353** | **2.1%** |
| **Institutional customer deposits** | **3,807,122** | **30.0%** | **3,865,139** | **30.8%** | **-58,017** | **-1.5%** |
| **Indirect deposits** | **12,687,002** | **100.0%** | **12,559,667** | **100.0%** | **127,335** | **1.0%** |

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

*Graph no. 4* - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2015**




*Graph no. 5* - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2015**



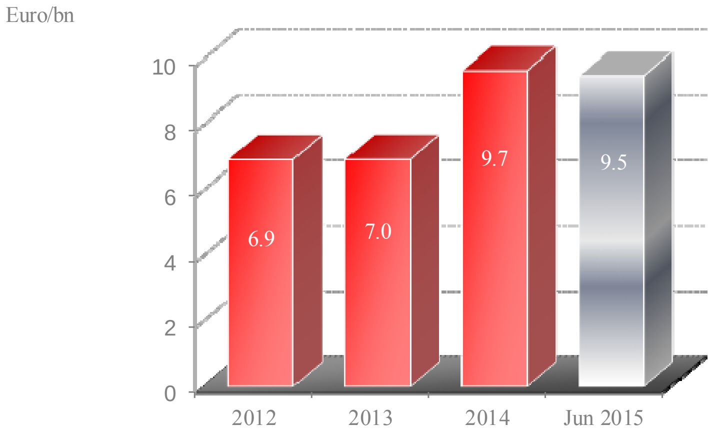

## 6.2 Loans to customers

The total value of loans to ordinary customers at the end of the first half-year came in at Euro 9.4 billion, Euro 0.1 billion less than at the end of 2014 (-0.7%), while loans to institutional customers, which consist entirely of repurchase agreements, amount to Euro 0.1 billion on Euro 0.3 billion at the end of the previous year,

The Group's lending activity led to a total value of net loans to customers of Euro 9.5 billion at 30 June 2015, with a decline of Euro 0.2 billion (-1.7%)

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

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




*Graph no. 7* - **LOANS TO CUSTOMERS**

| *Amounts in thousands of Euro* | 30.06.2015 | % | 31.12.2014 | % | Change Amount | Change % |
|---|---|---|---|---|---|---|
| Current accounts | 1,882,372 | 19.8% | 1,892,751 | 19.6% | -10,379 | -0.5% |
| Repurchase agreements | 8,151 | 0.1% | | | 8,151 | |
| Mortgages and other long-term loans | 6,273,590 | 66.0% | 6,310,885 | 65.3% | -37,295 | -0.6% |
| Other | 1,241,903 | 13.1% | 1,264,903 | 13.1% | -23,000 | -1.8% |
| **Loans to ordinary customers** | **9,406,016** | **99.0%** | **9,468,539** | **97.9%** | **-62,523** | **-0.7%** |
| Repurchase agreements | 94,870 | 1.0% | 198,361 | 2.1% | -103,491 | -52.2% |
| **Loans to institutional customers** | **94,870** | **1.0%** | **198,361** | **2.1%** | **-103,491** | **-52.2%** |
| **Loans to customers** | **9,500,886** | **100.0%** | **9,666,900** | **100.0%** | **-166,014** | **-1.7%** |

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 shows a high degree of risk diversification, as shown in the following table.

*Table no. 4 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS***

| *Number of customers* [(1)] | 30.06.2015 | 31.12.2014 |
|---|---|---|
| First 10 | 1,4% | 1,1% |
| First 20 | 2,3% | 2,0% |
| First 30 | 3,0% | 2,7% |
| First 50 | 4,1% | 3,9% |

*[(1)] net of repurchase agreements with institutional counterparties of Euro 94.9 million at 30.06.2015 and of Euro 198.4 million at 31.12.2014.*

In compliance with supervisory regulations in force, at the end of the first half of 2015, two positions were identified that are classifiable as “Major risks” and which amount to a total nominal value (inclusive of guarantees given and commitments) of some Euro 2.1 billion, which, in terms of the total weighted amount, comes to Euro 0.2 billion. These are exposures to the Treasury Ministry and Cassa di Compensazione e Garanzia S.p.A. (clearing house).

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

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

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

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

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

The total amount of net non-performing loans made up of doubtful loans, unlikely to pay, non-performing past due and/or overdrawn exposures, came to Euro 874.7 million at 30 June 2015, net of adjustments of Euro 751.7 million, an increase of Euro 20.8 million compared with 31 December 2014.

In particular, net doubtful loans totalled Euro 436.3 million, unlikely to pay, Euro 395.5 million and non-performing past due and/or overdrawn exposures Euro 42.9 million.

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

*Table no. 5* - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

| *% of gross loans* [(1)] | **30.06.2015** | **31.12.2014** |
|---|---|---|
| Gross non-performing loans to customers | 15,77% | 15,65% |
| *of which:* | | |
| - gross doubtful loans | 9,67% | 9,78% |
| - unlikely to pay, gross | 5,63% | 5,40% |
| - non-performing past due and/or overdrawn exposures, gross | 0,47% | 0,47% |

| *% of net loans* | **30.06.2015** | **31.12.2014** |
|---|---|---|
| Net non-performing loans to customers | 9,21% | 8,83% |
| *of which:* | | |
| - net doubtful loans | 4,59% | 4,41% |
| - unlikely to pay, net | 4,16% | 3,96% |
| - non-performing past due and/or overdrawn exposures, net | 0,45% | 0,46% |

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

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

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

| *% coverage of impaired and performing loans* [(1)] | **30.06.2015** | **31.12.2014** |
|---|---|---|
| % Coverage of doubtful loans | 56,27% | 58,52% |
| % Coverage of doubtful loans, gross of cancellations | 63,20% | 65,22% |
| % Total coverage of impaired loans | 46,22% | 48,11% |
| % Coverage of impaired loans, gross of cancellations | 51,79% | 53,69% |
| % Coverage of performing loans | 0,72% | 0,65% |

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

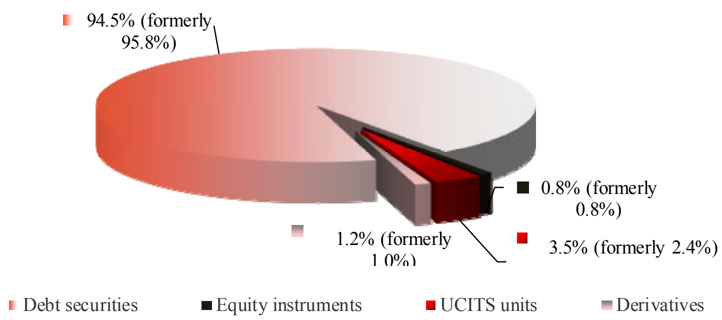
## 6.3 The securities portfolio and interbank position

*Securities portfolio*

At 30 June 2015, the Group's total financial assets amounted to some Euro 1.7 billion, a decrease of some Euro 0.2 billion compared with the end of 2014.

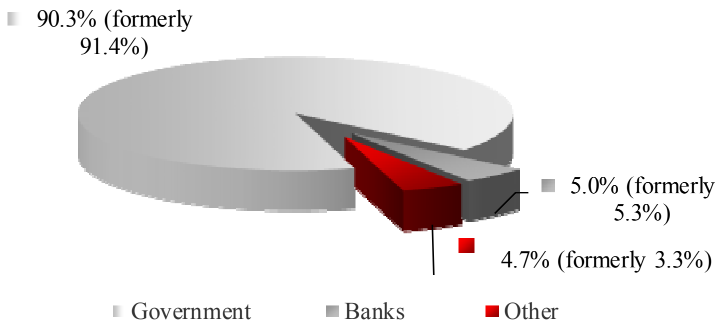
The breakdown of the portfolio by type of security is shown in the following graph, which shows that almost all (94.5%) of the total investment relates to debt securities.

*Graph no. 8* - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2015 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, 90.3% relates to government securities, 5% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

*Graph no. 9* - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2015 BY TYPE OF ISSUER**




*Sovereign debt exposures*

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2015 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

| *Amounts in thousands of Euro* | | Italy | 30.06.2015 |
|---|---|---|---|
| Financial Assets Held for Trading | Nominal Value | 1.732 | 1.732 |
| | Book Value | 984 | 984 |
| Financial Assets Available for Sale | Nominal Value | 1.543.000 | 1.543.000 |
| | Book Value | 1.541.606 | 1.541.606 |
| **Sovereign Debt** | **Nominal Value** | **1.544.732** | **1.544.732** |
| | **Book Value** | **1.542.590** | **1.542.590** |

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

| *Amounts in thousands of Euro* | | Italy | 30.06.2015 Nominal Value | 30.06.2015 Book Value |
|---|---|---|---|---|
| Financial Assets Held for Trading | up to 1 year | | | |
| | 1 to 3 years | | | |
| | 3 to 5 years | 1 | 1 | 1 |
| | over 5 years | 1.731 | 1.731 | 983 |
| | Total | 1.732 | 1.732 | 984 |
| Financial Assets Available for Sale | up to 1 year | 160.000 | 160.000 | 160.004 |
| | 1 to 3 years | 644.000 | 644.000 | 653.685 |
| | 3 to 5 years | 182.500 | 182.500 | 184.250 |
| | over 5 years | 556.500 | 556.500 | 543.668 |
| | Total | 1.543.000 | 1.543.000 | 1.541.607 |
| **Sovereign Debt** | **up to 1 year** | **160.000** | **160.000** | **160.004** |
| | **1 to 3 years** | **644.000** | **644.000** | **653.685** |
| | **3 to 5 years** | **182.501** | **182.501** | **184.251** |
| | **over 5 years** | **558.231** | **558.231** | **544.651** |
| | **Total** | **1.544.732** | **1.544.732** | **1.542.591** |

The Group does not have any Greek government securities in portfolio.

*Net interbank position*

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

## 6.4 Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2015, including net profit for the period, amounts to Euro 850.2 million, compared with Euro 845.6 million at the end of 2014.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2015, explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

*Table no. 9* - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.06.2015**

| *Amounts in thousands of Euro* | **Shareholders' equity** | ***of which: Net profit (loss) for the period*** |
|---|---|---|
| **Parent Company balances at 30 June 2015** | **821,526** | ***18,761*** |
| Effect of consolidation of subsidiaries | 25,216 | *-257* |
| Effect of valuation of associates at net equity | 3,485 | *1,557* |
| Dividends collected during the period | - | *-1,356* |
| Other changes | 5 | 5 |
| **Consolidated balances at 30 June 2015** | **850,232** | **18,710** |

Shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, with an expected pay out of not more than 40%, amounts at 30 June 2105 to Euro 1,063.6 million (CET1 + ATI of Euro 861.2 million + T2 of Euro 202.4 million), compared with Euro 990.8 million at the end of the previous year.

At 30 June 2015, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 10.6% (10.3% at 31 December 2014). The Tier 1 ratio (T1/Risk-weighted assets) was 10.7% (10.5% at 31 December 2014), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.2% (12.3% at 31 December 2014).

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

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

## 6.5 Reclassified income statement

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the *condensed interim financial statements*, which forms the basis of the specific comments. As indicated in the "Introduction", the income statement comparatives presented in this consolidated interim report, that is, those for the period ended 30 June 2014, do not include the results of the subsidiary Banca Popolare di Spoleto S.p.A. and, accordingly, the income statement figures are not comparable.

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 2015 closed with a net profit attributable to the Parent Company of Euro 18.7 million, compared with a net profit of Euro 31.1 million reported for the first half of the previous year, which included the net contribution made by Finance, relating to the Parent Company's disposal of all the financial instruments included in its HTM portfolio of Euro 8.4 million.

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

| | Captions *Amounts in thousands of Euro* | 30.06.2015 | 30.06.2014 | Change Amount | Change % |
|---|---|---|---|---|---|
| 10+20 | Net interest income | 137,681 | 102,136 | 35,545 | 34.8% |
| 70 | Dividends and similar income | 300 | 88 | 212 | 240.9% |
| | Profit from associates | 1,557 | 557 | 1,000 | 179.5% |
| 40+50 | Net commission income | 80,185 | 55,765 | 24,420 | 43.8% |
| 80+90+100+ 110 | Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss | 13,007 | 30,661 | -17,654 | -57.6% |
| 220 | Other operating income/expense | 5,809 | 8,228 | -2,418 | -29.4% |
| | **Operating income** | **238,539** | **197,435** | **41,105** | **20.8%** |
| 180 a | Payroll costs | -90,317 | -68,190 | -22,127 | 32.4% |
| 180 b | Other administrative costs | -37,847 | -31,543 | -6,304 | 20.0% |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -5,981 | -4,543 | -1,437 | 31.6% |
| | **Operating costs** | **-134,144** | **-104,276** | **-29,868** | **28.6%** |
| | **Result of operations** | **104,395** | **93,158** | **11,237** | **12.1%** |
| | Gains (Losses) on disposal or repurchase of loans | -1,001 | -448 | -553 | 123.4% |
| 130 a | Net impairment adjustments to loans and advances | -77,044 | -56,114 | -20,930 | 37.3% |
| 130 b | Net impairment adjustments to financial assets available for sale | -133 | 215 | -348 | n.s. |
| 130 d | Net impairment adjustments to other financial assets | 78 | 652 | -574 | -88.0% |
| 190 | Net provisions for risks and charges | -821 | 314 | -1,135 | n.s. |
| | **Profit (loss) from operations before tax** | **25,474** | **37,777** | **-12,303** | **-32.6%** |
| 290 | Income taxes on current operations | -4,865 | -13,986 | 9,121 | -65.2% |
| | **Profit (loss) from operations after tax** | **20,609** | **23,791** | **-3,183** | **-13.4%** |
| 240+270 | Profit (loss) from investments and disposal of investments | 0 | 0 | 0 | |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | -3,137 | 10,940 | -14,077 | n.s. |
| | **Non-recurring profit (loss) before tax** | **-3,137** | **10,940** | **-14,077** | **n.s.** |
| | Income taxes from non-recurring items | 896 | -3,582 | 4,478 | n.s. |
| | **Non-recurring profit (loss) after tax** | **-2,241** | **7,358** | **-9,598** | **n.s.** |
| **320** | **Net profit (loss) for the period** | **18,368** | **31,149** | **-12,781** | **-41.0%** |
| 330 | Minority interests | 342 | -46 | 388 | n.s. |
| **340** | **Parent Company net profit (loss)** | **18,710** | **31,103** | **-12,393** | **-39.8%** |

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

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

| Captions | | As per financial statements | Reclassifications | | | | | | | Reclassified income statement |
|---|---|---|---|---|---|---|---|---|---|---|
| *Amounts in thousands of Euro* | | 30.06.2015 | Gains on disposal of financial assets held to maturity | Tax/expense recoveries | Profit from associates | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Income taxes | 30.06.2015 |
| 10+20 | Net interest income | 137,681 | | | | | | | | 137,681 |
| 70 | Dividends and similar income | 300 | | | | | | | | 300 |
| | Profit from associates | | | | 1,557 | | | | | 1,557 |
| 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 | 0 | | | | 1,001 | | | 13,007 |
| 220 | Other operating income/expense | 22,002 | | -19,831 | | 1,290 | | 2,349 | | 5,809 |
| | **Operating income** | **252,174** | **0** | **-19,831** | **1,557** | **1,290** | **1,001** | **2,349** | **0** | **238,539** |
| 180 a | Payroll costs | -90,435 | | | | | | 118 | | -90,317 |
| 180 b | Other administrative costs | -58,348 | | 19,831 | | | | 670 | | -37,847 |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -4,691 | | | | -1,290 | | | | -5,981 |
| | **Operating costs** | **-153,474** | **0** | **19,831** | **0** | **-1,290** | **0** | **788** | **0** | **-134,144** |
| | **Result of operations** | **98,700** | **0** | **0** | **1,557** | **0** | **1,001** | **3,137** | **0** | **104,395** |
| | 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** | **0** | **1,557** | **0** | **0** | **3,137** | **0** | **25,474** |
| 290 | Income taxes on current operations | -3,969 | | | | | | | -896 | -4,865 |
| | **Profit (loss) from operations after tax** | **16,811** | **0** | **0** | **1,557** | **0** | **0** | **3,137** | **-896** | **20,609** |
| 240+270 | Profit (loss) from investments and disposal of investments | 1,557 | | | -1,557 | | | | | 0 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | 0 | | | | | -3,137 | | -3,137 |
| | **Non-recurring profit (loss) before tax** | **1,557** | **0** | **0** | **-1,557** | **0** | **0** | **-3,137** | **0** | **-3,137** |
| | Income taxes from non-recurring items | | | | | | | | 896 | 896 |
| | **Non-recurring profit (loss) after tax** | **1,557** | **0** | **0** | **-1,557** | **0** | **0** | **-3,137** | **896** | **-2,241** |
| **320** | **Net profit (loss) for the period** | **18,368** | **0** | **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** | **0** | **18,710** |

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

| Captions | | As per financial statements | Reclassifications | | | | | | | Reclassified income statement |
|---|---|---|---|---|---|---|---|---|---|---|
| *Amounts in thousands of Euro* | | 30.06.2014 | Gains on disposal of financial assets held to maturity | Tax/expense recoveries | Profit from associates | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Income taxes | 30.06.2014 |
| 10+20 | Net interest income | 102,136 | | | | | | | 0 | 102,136 |
| 70 | Dividends and similar income | 88 | | | | | | | | 88 |
| | Profit from associates | | | | 557 | | | | | 557 |
| 40+50 | Net commission income | 55,765 | | | | | | | | 55,765 |
| 80+90+100+110 | Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss | 42,641 | -12,428 | | | | 448 | | | 30,661 |
| 220 | Other operating income/expense | 20,275 | | -13,142 | | 1,094 | | | | 8,228 |
| | **Operating income** | **220,905** | **-12,428** | **-13,142** | **557** | **1,094** | **448** | **0** | **0** | **197,435** |
| 180 a | Payroll costs | -68,321 | | | | | | 131 | | -68,190 |
| 180 b | Other administrative costs | -46,042 | | 13,142 | | | | 1,357 | | -31,543 |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -3,449 | | | | -1,094 | | | | -4,543 |
| | **Operating costs** | **-117,812** | **0** | **13,142** | **0** | **-1,094** | **0** | **1,488** | **0** | **-104,276** |
| | **Result of operations** | **103,093** | **-12,428** | **0** | **557** | **0** | **448** | **1,488** | **0** | **93,158** |
| | Gains (Losses) on disposal or repurchase of loans | | | | | | -448 | | | -448 |
| 130 a | Net impairment adjustments to loans and advances | -56,259 | | | | | | 145 | | -56,114 |
| 130 b | Net impairment adjustments to financial assets available for sale | 215 | | | | | | | | 215 |
| 130 d | Net impairment adjustments to other financial assets | 652 | | | | | | | | 652 |
| 190 | Net provisions for risks and charges | 459 | | | | | | -145 | | 314 |
| | **Profit (loss) from operations before tax** | **48,160** | **-12,428** | **0** | **557** | **0** | **0** | **1,488** | **0** | **37,777** |
| 290 | Income taxes on current operations | -17,568 | | | | | | | 3,582 | -13,986 |
| | **Profit (loss) from operations after tax** | **30,592** | **-12,428** | **0** | **557** | **0** | **0** | **1,488** | **3,582** | **23,791** |
| 240+270 | Profit (loss) from investments and disposal of investments | 557 | | | -557 | | | | | 0 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | 12,428 | | | | | -1,488 | | 10,940 |
| | **Non-recurring profit (loss) before tax** | **557** | **12,428** | **0** | **-557** | **0** | **0** | **-1,488** | **0** | **10,940** |
| | Income taxes from non-recurring items | | | | | | | | -3,582 | -3,582 |
| | **Non-recurring profit (loss) after tax** | **557** | **12,428** | **0** | **-557** | **0** | **0** | **-1,488** | **-3,582** | **7,358** |
| 320 | **Net profit (loss) for the period** | **31,149** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **31,149** |
| 330 | Minority interests | -46 | | | | | | | | -46 |
| 340 | **Parent Company net profit (loss)** | **31,103** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **31,103** |

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

*Operating income*

Core revenues increased by 20.8% on the first half of the prior year, rising to Euro 238.5 million, being an increase of some Euro 41.1 million. The increase is mainly attributable to *net interest income* which, at Euro 137.7 million, has gone up by Euro 35.5 million (+34.8%), linked to the growth in the size of the Group due to the inclusion of Banca Popolare di Spoleto S.p.A.

There have also been increases in *net commission income*, which, at Euro 80.2 million, has increased by Euro 24.4 million (+43.8%), again because of the growth in the size of the Group due to the inclusion of Banca Popolare di Spoleto S.p.A., in *profit from associates* risen by Euro 1 million, mainly relating to the higher share of profit earned by Istifid S.p.A., and in dividends and similar income up by Euro 0.2 million.

Conversely, the aggregate of *net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss* posts a decrease of Euro 1 million (-34.4%), as in *other operating income/expense*, which has decreased by Euro 2.4 million (-29.4%), net of the reclassification of the *Single Resolution Mechanism (SRM) contribution* of Euro 2.3 million (Euro 1.8 million for the Parent Company and Euro 0.5 million for Banca Popolare di Spoleto S.p.A.) to non-recurring profit (loss). The contribution refers to the new resolution rules applied from 1 January 2015 to all banks in the European Union according to Directive 2014/59/EU which includes the activation of resolution mechanisms setting up funds by means of "*ex ante*" contributions. The target level of these funds to be achieved by 31 December 2024 is equal to 1% of the deposits protected by the system. The contribution for 2015 has been estimated on the basis of the information available to date, bearing in mind that the amount actually required could differ significantly from the estimated figure, depending on various different interpretations regarding the mode of recognition and quantification of the circumstances in question. The relevant authorities are expected to pronounce on this matter by the end of this year.

*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 134.1 million and have increased, with respect to the comparative period, by Euro 29.9 million (+28.6%) due to the increase in the size of the Group after the inclusion of Banca Popolare di Spoleto S.p.A.

*Payroll costs* increased by 22.1 million (+32.4%). while *other administrative costs*, net of advisory costs relating to the acquisition of Banca Popolare di Spoleto S.p.A. of Euro 0.7 million (Euro 1.5 million in the first half of the previous year), which have been reclassified to Non-recurring profit (loss), have increased by Euro 6.3 million (+20%). *Net adjustments to property, plant and equipment and intangible assets* have also increased, in this case by Euro 1.4 million (+31.6%).

*Result of operations*

The result of operations at the end of the first quarter therefore comes to Euro 104.4 million, an increase of 12.1% on the same period last year, i.e.  Euro 11.2 million.

*Net profit (loss) from operations after tax*

*Net impairment adjustments to non-performing loans* of Euro 77 million, which are Euro 20.9 million higher than in the comparative period, *losses on disposal or repurchase of loans* of Euro 1 million, *net provisions for risks and charges* of Euro 0.8 million*, taxes on income from continuing operations* of Euro 4.9 million (considering the positive impact of Euro 2.1 million mainly due for Euro 1.3 million to the reversal of deferred tax liabilities and the recognition of deferred tax assets on goodwill allocated for statutory purposes to Banca Popolare di Spoleto S.p.A. and Euro 0.6 million of net deferred tax assets recorded for IRAP purposes on provisions for personnel expenses allocated in previous years), lead to a *net profit from operations after tax* of Euro 20.6 million, compared with a net profit of Euro 23.8 million in the same period of the prior year (-13.4%).

*Non-recurring profit (loss) after tax*

The *non-recurring loss after tax* for the first half-year comes to Euro 2.2 million, attributable to consulting fees relating to the acquisition of control of Banca Popolare di Spoleto S.p.A. of Euro 0.5 million and to the *SRM contribution* of Euro 1.7 million, both net of the related tax effect.

The prior period non-recurring profit after tax of Euro 7.4 million was mainly due to the Euro 8.4 million contribution after tax resulting from the Parent Company's sale of all the financial instruments in its held-to-maturity portfolio and to consulting fees relating to the acquisition of control of Banca Popolare di Spoleto S.p.A. of Euro 0.9 million after tax.

*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 2015 of Euro 18.7 million, which compares with a net result for the comparative period of Euro 31.1 million.

# 7. Significant subsequent events

*Closures of branch of Banca Popolare di Spoleto S.p.A.*

Please note that, as part of the rationalisation of the distribution network, Banca Popolare di Spoleto S.p.A. approved the closure of four branches, in Viterbo, Civitavecchia, Rome and Terni, by next September.

# 8. Other information

## 8.1 Ratings

On 2 July 2015, the Parent Company announced, following its annual rating review, that Fitch Ratings had confirmed its previous ratings. Confirmation of the ratings reflects the adequate capital base, the correct profile of funding and the level of profitability that is more solid than most competitors. The Agency also judged positively the prudent lending policy and the well spread loan portfolio, the geographic diversification of which has been further enhanced with the acquisition of Banca Popolare di Spoleto. The deterioration in asset quality, even after the acquisition of Banca Popolare di Spoleto, remains below average for the system; Coverage levels have improved steadily since 2013 and remain among the highest for its main competitors.

The updated ratings are the following:

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

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

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

## 8.3 Transactions with related parties

For a description of the procedures governing transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and/or with associated persons (pursuant to art. 53 of the Consolidated Banking Act), reference should be made to paragraph 5 of the “Annual Report on Corporate Governance”, which is available on the Group's website pursuant to art. 123-bis of the CFA in the section on "Corporate Governance", as well as on the website of the subsidiary 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*.

### 8.4 Information on incentive plans (stock grants)

With reference to the Stock Grant Plan for the three-year period 2011-2013, note that the threshold for free allocation of ordinary shares of the Parent Company in favour of management of the Banco Desio Group was not reached. The conditions for the allocation of shares in relation to the 3rd and last allocation cycle linked to performance during the period 2013-2015 are still to be verified. The bonus system in which this Plan operated was revised and approved by Board resolution on 19 December 2013. For further information, please refer to the specific section of the *condensed interim financial statements*.

## 9. Outlook for the rest of the year and principal risks and uncertainties

Operating performance in the first-half of the current year confirms the estimates for 2015 outlined in the Group's Business Plan for the period 2015-2017. These foresee year-end results of ordinary operations in line with those of the year previous, given that Banca Popolare di Spoleto S.p.A. is expected to achieve breakeven as forecast in its Business Plan.

As regards the principal risks and uncertainties, note that this report and, more generally, the *consolidated interim financial report at 30 June 2015* has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

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

*Desio, 6 August 2015*

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

# Interim condensed consolidated financial statements at 30 June 2015

# FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET

## ASSETS

| Assets | 30.06.2015 | 31.12.2014 | Change amount | Change % |
|---|---|---|---|---|
| 10. Cash and cash equivalents | 54,439 | 62,890 | (8,451) | -13.44% |
| 20. Financial assets held for trading | 13,501 | 18,727 | (5,226) | -27.91% |
| 40. Financial assets available for sale | 1,684,338 | 1,877,959 | (193,621) | -10.31% |
| 60. Due from banks | 196,050 | 288,282 | (92,232) | -31.99% |
| 70. Loans to customers | 9,500,886 | 9,666,900 | (166,014) | -1.72% |
| 80. Hedging derivatives | 9,453 | 8,372 | 1,081 | 12.91% |
| 90. Adjustment to financial assets with generic hedge (+/-) | 1,443 | 2,478 | (1,035) | -41.77% |
| 100. Equity investments | 15,488 | 14,806 | 682 | 4.61% |
| 120. Property, plant and equipment | 183,509 | 185,887 | (2,378) | -1.28% |
| 130. Intangible assets | 18,043 | 18,384 | (341) | -1.86% |
| of which: | | | | |
| - goodwill | 15,322 | 15,322 | | 0.00% |
| 140. Tax assets | 231,281 | 241,040 | (9,759) | -4.05% |
| a) current | 36,267 | 43,865 | (7,598) | -17.32% |
| b) deferred | 195,014 | 197,175 | (2,161) | -1.10% |
| *of which Law 214/2011* | 168,320 | 173,730 | (5,410) | -3.11% |
| 150. Non-current assets and disposal groups held for sale | 2,370 | 0 | 2,370 | 0.00% |
| 160. Other assets | 183,275 | 177,945 | 5,330 | 3.00% |
| **Total assets** | **12,094,076** | **12,563,670** | **(469,594)** | **-3.74%** |

# LIABILITIES

| Liabilities and shareholders' equity | 30.06.2015 | 31.12.2014 | Change amount | Change % |
|---|---|---|---|---|
| 10. Due to banks | 728,207 | 1,017,467 | (289,260) | -28.43% |
| 20. Due to customers | 7,584,752 | 7,444,025 | 140,727 | 1.89% |
| 30. Debt securities in issue | 2,317,548 | 2,798,752 | (481,204) | -17.19% |
| 40. Financial liabilities held for trading | 4,654 | 3,259 | 1,395 | 42.81% |
| 50. Financial liabilities designated at fair value through profit and loss | 21,845 | 23,626 | (1,781) | -7.54% |
| 60. Hedging derivatives | 5,379 | 6,717 | (1,338) | -19.92% |
| 80. Tax liabilities | 31,901 | 36,156 | (4,255) | -11.77% |
| a) current | 417 | 2,156 | (1,739) | -80.66% |
| b) deferred | 31,484 | 34,000 | (2,516) | -7.40% |
| 90. Liabilities associated with assets held for sale | 1,412 | | 1,412 | 0.00% |
| 100. Other liabilities | 421,133 | 253,959 | 167,174 | 65.83% |
| 110. Provision for termination indemnities | 31,614 | 34,985 | (3,371) | -9.64% |
| 120. Provisions for risks and charges: | 43,802 | 44,670 | (868) | -1.94% |
| a) pensions and similar commitments | 0 | | | 0.00% |
| b) other provisions | 43,802 | 44,670 | (868) | -1.94% |
| 140. Valuation reserves | 21,626 | 27,975 | (6,349) | -22.70% |
| 170. Reserves | 726,046 | 693,201 | 32,845 | 4.74% |
| 180. Share premium reserve | 16,145 | 16,145 | | 0.00% |
| 190. Share capital | 67,705 | 67,705 | | 0.00% |
| 210. Minority interests | 51,597 | 54,427 | (2,830) | -5.20% |
| 220. Net profit (loss) for the period (+/-) | 18,710 | 40,601 | (21,891) | -53.92% |
| **Total liabilities and shareholders' equity** | **12,094,076** | **12,563,670** | **(469,594)** | **-3.74%** |

# CONSOLIDATED INCOME STATEMENT

| | 30.06.2015 | 30.06.2014 | Change amount | Change % |
|---|---|---|---|---|
| 10. Interest and similar income | 191,510 | 156,756 | 34,754 | 22.17% |
| 20. Interest and similar expense | (53,829) | (54,620) | 791 | -1.45% |
| **30. Net interest income** | **137,681** | **102,136** | **35,545** | **34.80%** |
| 40. Commission income | 91,318 | 64,090 | 27,228 | 42.48% |
| 50. Commission expense | (11,133) | (8,325) | (2,808) | 33.73% |
| **60. Net commission income** | **80,185** | **55,765** | **24,420** | **43.79%** |
| 70. Dividends and similar income | 300 | 88 | 212 | 240.91% |
| 80. Net trading income | 3,532 | 1,185 | 2,347 | 198.06% |
| 90. Net hedging gains (losses) | (1,593) | (1,082) | (511) | 47.23% |
| 100. Gains (losses) on disposal or repurchase of: | 10,188 | 42,905 | (32,717) | -76.26% |
| a) loans | (1,001) | (448) | (553) | 123.44% |
| b) financial assets available for sale | 13,800 | 32,244 | (18,444) | -57.20% |
| c) financial assets held to maturity | | 12,428 | (12,428) | -100.00% |
| d) financial liabilities | (2,611) | (1,319) | (1,292) | 97.95% |
| 110. Net results on financial assets and liabilities designated at fair value | (121) | (367) | 246 | -67.03% |
| **120. Net interest and other banking income** | **230,172** | **200,630** | 29,542 | **14.73%** |
| 130. Net impairment adjustments to: | (76,668) | (55,392) | (21,276) | 38.41% |
| a) loans | (76,613) | (56,259) | (20,354) | 36.18% |
| b) financial assets available for sale | (133) | 215 | (348) | -161.86% |
| d) other financial assets | 78 | 652 | (574) | -88.04% |
| **140. Net profit from financial activities** | **153,504** | **145,238** | **8,266** | **5.69%** |
| **170. Net profit from financial and insurance activities** | **153,504** | **145,238** | **8,266** | **5.69%** |
| 180. Administrative costs: | (148,783) | (114,363) | (34,420) | 30.10% |
| a) payroll costs | (90,435) | (68,321) | (22,114) | 32.37% |
| b) other administrative costs | (58,348) | (46,042) | (12,306) | 26.73% |
| 190. Net provisions for risks and charges | (1,252) | 459 | (1,711) | -372.77% |
| 200. Net adjustments to property, plant and equipment | (4,039) | (2,929) | (1,110) | 37.90% |
| 210. Net adjustments to intangible assets | (652) | (520) | (132) | 25.39% |
| 220. Other operating charges/income | 22,002 | 20,275 | 1,727 | 8.52% |
| **230. Operating costs** | **(132,724)** | **(97,078)** | **(35,646)** | **36.72%** |
| 240. Profit (loss) from equity investments | 1,557 | 557 | 1,000 | 179.53% |
| 270. Gains (losses) on disposal of investments | | | | |
| **280. Profit (loss) from current operations before tax** | **22,337** | **48,717** | **(26,380)** | **-54.15%** |
| 290. Income taxes on current operations | (3,969) | (17,568) | 13,599 | -77.41% |
| **300. Profit (loss) from current operations after tax** | **18,368** | **31,149** | **(12,781)** | **-41.03%** |
| **320. Net profit (loss) for the period** | **18,368** | **31,149** | **(12,781)** | **-41.03%** |
| 330. Net profit (loss) pertaining to minority interests | 342 | (46) | 388 | -843.48% |
| **340. Parent Company net profit (loss)** | **18,710** | **31,103** | **(12,393)** | **-39.85%** |

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| **Basic earnings per share (Euro)** | 0.14 | 0.24 |
| **Diluted earnings per share (Euro)** | 0.14 | 0.24 |

# STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

| | Captions | 30.06.2015 | 30.06.2014 |
|---|---|---|---|
| **10.** | **Net profit (loss) for the period** | **18,368** | **31,149** |
| | **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 | 1,321 | (1,094) |
| **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 | 1,184 | - |
| **100.** | Financial assets available for sale | (16,587) | 5,228 |
| **110.** | Non-current assets and disposal groups held for sale | - | - |
| **120.** | Portion of the valuation reserves of the equity investments carried at equity | (196) | 2 |
| **130.** | **Total other elements of income (net of income taxes)** | **(6,112)** | **4,136** |
| **140.** | **Total comprehensive income (Captions 10+110)** | **12,256** | **35,285** |
| **150.** | Total comprehensive income pertaining to minority interests | 105 | (46) |
| **160.** | **Total consolidated comprehensive income pertaining to Parent Company** | **12,361** | **35,239** |

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2015

| | Balance at 31.12.2014 | Changes in opening balances | Balance at 1.01.2015 | Allocation of prior year results | | Changes during the year | | | | | | | | | Group shareholders' equity at 30.06.2015 | 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 reserve | 38,813 | | 38,813 | | | | | | | | | | (7,251) | | 16,145 | 15,417 |
| Reserves: | | | | | | | | | | | | | | | | |
| 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 reserves: | 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.

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2014

| | Balance at 31.12.2013 | Changes in opening balances | Balance at 1.01.2014 | Allocation of prior year results | | Changes during the year | | | | | | | | | Group shareholders' equity at 30.06.2014 | Minority interests at 30.06.2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Transactions on shareholders' equity | | | | | | | | | |
| | | | | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on treasury shares | Stock options | Changes in equity investments | Comprehensive income at 30.06.2014 | | |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 60,940 | | 60,940 | | | | | | | | | | | | 60,840 | 100 |
| b) other shares | 6,865 | | 6,865 | | | | | | | | | | | | 6,865 | |
| Share premium reserve | 16,145 | | 16,145 | | | | | | | | | | | | 16,145 | |
| Reserves: | | | | | | | | | | | | | | | | |
| a) from profits | 698,933 | | 698,933 | (7,822) | | 1,203 | | | | | | | | | 692,303 | 11 |
| b) other | 10,170 | | 10,170 | | | | | | | | | 254 | | | 10,424 | |
| Valuation reserves: | 30,620 | | 30,620 | | | | | | | | | | | 4,136 | 34,756 | |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | | | | | | | | | |
| Net profit (loss) for the period | (4,736) | | (4,736) | 7,822 | (3,086) | | | | | | | | | 31,149 | 31,103 | 46 |
| **Group shareholders' equity** | **818,716** | | **818,716** | | **(2,984)** | **1,211** | | | | | | **254** | | **35,239** | **852,436** | |
| **Minority interests** | **221** | | **221** | | **(102)** | **(8)** | | | | | | | | **46** | | **157** |

# CONSOLIDATED CASH FLOW STATEMENT

| A. OPERATING ACTIVITIES | *Amount* | |
|---|---|---|
| | **30.06.2015** | **30.06.2014** |
| **1. Cash generated from operations** | **126,334** | **100,210** |
| - interest received (+) | 191,198 | 157,085 |
| - interest paid (-) | (54,220) | (54,159) |
| - dividends and similar income (+) | 300 | 88 |
| - net commissions (+/-) | 80,940 | 56,657 |
| - payroll costs (-) | (87,295) | (64,180) |
| - net premiums received (+) | | |
| - other insurance income/expense (+/-) | | |
| - other costs (-) | (54,466) | (41,044) |
| - other revenues (+) | 53,846 | 63,331 |
| - taxation (-) | (3,969) | (17,568) |
| - costs/revenues for disposal groups, net of tax effect (+/-) | | |
| **2. Cash generated (absorbed) by financial assets** | **343,819** | **(679,113)** |
| - financial assets held for trading | 5,393 | 1,801 |
| - financial assets designated at fair value through profit and loss | | |
| - financial assets available for sale | 171,751 | 165,406 |
| - loans to customers | 70,312 | (591,671) |
| - due from banks: on demand | (8,939) | (163,292) |
| - due from banks: other receivables | 99,452 | (73,979) |
| - other assets | 5,850 | (17,378) |
| **3. Cash generated (absorbed) by financial liabilities** | **(468,514)** | **445,152** |
| - due to banks: on demand | (17,578) | 40,691 |
| - due to banks: other debts | (271,807) | (7,488) |
| - due to customers | 140,648 | 402,727 |
| - debt securities in issue | (477,829) | (152,452) |
| - financial liabilities held for trading | 1,308 | (164) |
| - financial liabilities designated at fair value through profit and loss | (1,706) | (10,505) |
| - other liabilities | 158,450 | 172,343 |
| **Net cash generated/absorbed by operating activities (A)** | **1,639** | **(133,751)** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash generated by** | **41** | **181,608** |
| - sale of equity investments | | |
| - dividends collected on equity investments | | |
| - sale/redemption of financial assets held to maturity | | 181,568 |
| - sale of property, plant and equipment | 41 | 40 |
| - sale of intangible assets | | |
| - sale of lines of business | | |
| **2. Cash absorbed by** | **(3,420)** | **(42,147)** |
| - purchase of equity investments | | (34,986) |
| - purchase of financial assets held to maturity | | |
| - purchase of property, plant and equipment | (3,072) | (6,407) |
| - purchase of intangible assets | (348) | (754) |
| - purchase of lines of business | | |
| **Net cash generated/absorbed by investing activities (B)** | **(3,379)** | **139,461** |
| **C. FINANCING ACTIVITIES** | | |
| - issue/purchase of treasury shares | | |
| - issue/purchase of equity instruments | | |
| - dividends distributed and other allocations | (8,830) | (3,086) |
| **Net cash generated/absorbed by financing activities (C)** | **(8,830)** | **(3,086)** |
| **NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)** | **(10,570)** | **2,624** |

## RECONCILIATION

| Captions | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents at beginning of period | 62,890 | 29,848 |
| Net increase (decrease) in cash and cash equivalents | (10,570) | 2,624 |
| Cash and cash equivalents: effect of change in exchange rates | 2,119 | 976 |
| Cash and cash equivalents at end of period | 54,439 | 33,448 |

# CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

| | Captions | 2nd quarter 2015 | 1st quarter 2015 | 2nd quarter 2014 | 1st quarter 2014 |
|---|---|---|---|---|---|
| 10 | Interest and similar income | 93,691 | 97,819 | 78,464 | 78,292 |
| 20 | Interest and similar expense | (25,142) | (28,687) | (27,505) | (27,115) |
| **30** | **Net interest income** | **68,549** | **69,132** | **50,959** | **51,177** |
| 40 | Commission income | 46,321 | 44,997 | 33,699 | 30,391 |
| 50 | Commission expense | (5,953) | (5,180) | (4,465) | (3,860) |
| **60** | **Net commissions Income** | **40,368** | **39,817** | **29,234** | **26,531** |
| 70 | Dividends and similar income | 300 | - | 88 | - |
| 80 | Net trading income | 1,410 | 2,122 | 574 | 611 |
| 90 | Net hedging gains (losses) | 135 | (1,728) | (9) | (1,073) |
| 100 | Gains (losses) on disposal or repurchase of: | 630 | 9,558 | 14,569 | 28,336 |
| | *a) loans* | *(814)* | *(187)* | *(448)* | - |
| | *b) financial assets available for sale* | *3,561* | *10,239* | *15,818* | *16,426* |
| | *c) financial assets held to maturity* | *(22)* | *22* | - | *12,428* |
| | *d) financial liabilities* | *(2,095)* | *(516)* | *(801)* | *(518)* |
| 110 | Net results on financial assets and liabilities designated at fair value | 132 | (253) | 11 | (378) |
| **120** | **Net interest and other banking income** | **111,524** | **118,648** | **95,426** | **105,204** |
| 130 | Net impairment adjustments to: | (41,065) | (35,603) | (33,940) | (21,452) |
| | *a) loans* | *(40,896)* | *(35,717)* | *(34,756)* | *(21,503)* |
| | *b) financial assets available for sale* | (133) | - | *(39)* | *254* |
| | *d) other financial assets* | (36) | 114 | 855 | (203) |
| **140** | **Net profit from financial activities** | **70,459** | **83,045** | **61,486** | **83,752** |
| **170** | **Net profit from financial and insurance activities** | **70,459** | **83,045** | **61,486** | **83,752** |
| 180 | Administrative costs: | (76,590) | (72,193) | (58,464) | (55,899) |
| | *a) payroll costs* | *(45,563)* | *(44,872)* | *(34,710)* | *(33,611)* |
| | *b) other administrative costs* | *(31,027)* | *(27,321)* | *(23,754)* | *(22,288)* |
| 190 | Net provisions for risks and charges | (796) | (456) | 990 | (531) |
| 200 | Net adjustments to property, plant and equipment | (2,011) | (2,028) | (1,477) | (1,452) |
| 210 | Net adjustments to intangible assets | (325) | (327) | (263) | (257) |
| 220 | Other operating charges/income | 10,658 | 11,344 | 11,116 | 9,159 |
| **230** | **Operating costs** | **(69,064)** | **(63,660)** | **(48,098)** | **(48,980)** |
| 240 | Profit (loss) from equity investments | 1,129 | 428 | 383 | 174 |
| **280** | **Profit (loss) from current operations before tax** | **2,524** | **19,813** | **13,771** | **34,946** |
| 290 | Income taxes on current operations | 2,592 | (6,561) | (4,644) | (12,924) |
| **300** | **Profit (loss) from current operations after tax** | **5,116** | **13,252** | **9,127** | **22,022** |
| 310 | Profit (loss) after tax on non-current assets held for sale | - | - | - | - |
| **320** | **Net profit (loss) for the period** | **5,116** | **13,252** | **9,127** | **22,022** |
| 330 | Net profit (loss) pertaining to minority interests | (240) | 582 | (21) | (25) |
| **340** | **Parent Company net profit (loss)** | **4,876** | **13,834** | **9,106** | **21,997** |

# EXPLANATORY NOTES

# BASIS OF PREPARATION AND ACCOUNTING POLICIES

# ACCOUNTING POLICIES

## GENERAL INFORMATION

### Section 1 - Declaration of compliance with International Financial Reporting Standards

These Interim condensed consolidated financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and 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 Reporting Interpretations Committee (IFRC) applicable as of 30 June 2015 and in particular with IAS 34 – *Interim financial statements,* as well as the enabling regulations for art. 9 of Legislative Decree 38/2005 and the Bank of Italy Circular 262 of 22 December 2005 as subsequently updated on 22 December 2014.

It should be noted that as of 1 January 2015, the first year after the date of publication, IFRIC 21 - *Levies*, which clarifies the time of recognition of a liability related to taxes imposed by a government agency (other than income taxes, fines and other penalties for violation of laws), has been applied for the first time by the Group. The interpretation deals with the accounting of levies falling within the scope of IAS 37 - *Provisions, contingent liabilities and contingent assets*, and those levies whose timing and amount are uncertain.

### Section 2 - Basis of preparation

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

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

The interim condensed consolidated financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the period of the Banco Desio Group. The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence.

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 2015, adjusted, where necessary, to comply with the relevant IAS/IFRS adopted by the Parent Company. The amounts in the financial statements and the figures reported in the explanatory notes are expressed in thousands of Euro – unless otherwise indicated.

## Section 3 - Scope of consolidation and methodology

### 1. Investments in subsidiaries

| Name | Head office | Type of relationship (1) | Nature of holding | |
|---|---|---|---|---|
| | | | Parent company | % held |
| Fides S.p.A. | Rome | 1 | Banco Desio | 100.000 |
| Rovere S.A. (2) | Luxembourg | 1 | Banco Desio | 80.000 |
| Credito Privato Commerciale S.A. in liquidation | Lugano | 1 | Banco Desio | 100.000 |
| Banca Popolare di Spoleto S.p.A. | Spoleto | 1 | Banco Desio | 81.710 |
| Spoleto Mortgages S.r.l. (3) | Conegliano | 4 | Banca Popolare di Spoleto | 10.000 |

***Key:***
(1) Type of relationship:
1 = majority of votes at the ordinary shareholders' meeting
4 = other forms of control

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

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

Compared with the situation at 31 December 2014, the only change in the scope of consolidation related solely to the increase of the percentage of capital held by the Parent Company in Banca Popolare di Spoleto S.p.A. ("BPS") upon completion of the Contribution of Banco Desio in BPS, effective for legal purposes from 1 April 2015. This holding could decrease to 76.31% due to the effect of any future subscription for Conversion Shares by the owners of BPS ordinary shares, other than Banco Desio, as the result of their exercise of the Warrants allocated thereto.

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

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

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

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

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

**3. Investments in subsidiaries with significant minority interests**

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

| Name | Minority interests % | Dividends paid to third parties |
|---|---|---|
| Banca Popolare di Spoleto S.p.A. | 18.290 | - |
| Rovere S.A. | 20.000 | 57 |

**3.2 Investments with significant minority interests: accounting information**

| Name | Total assets | Cash and cash equivalents | Financial assets | Property, plant and equipment and intangible assets | Financial liabilities | Shareholders' equity | Net interest income | Net interest and other banking income | Operating costs | Profit (loss) from current operations before tax | Profit (loss) from current operations after tax | Profit (loss) after tax on non-current assets held for sale | Net profit (loss) for the period (1) | Other elements of income, net of income taxes (2) | Comprehensive income (3) = (1) + (2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Banca Popolare di Spoleto S.p.A. | 4,020,434 | 31,918 | 311,250 | 51,504 | 2,974 | 255,046 | 44,462 | 74,040 | (42,462) | 7,362 | 6,089 | - | 6,089 | (6,075) | 14 |
| Rovere S.A. | 2,370 | - | - | 8 | - | 957 | 1 | 868 | (372) | 496 | 407 | - | 407 | - | 407 |

**4 Significant restrictions**

There are no significant restrictions (e.g. legal, contractual or regulatory restrictions) on the Parent Company's ability to access the assets, or to use them, and to pay off the liabilities of the Group, such as restrictions on the ability of the Parent Company or its subsidiaries to transfer cash or limitations on transfers of funds in the form of dividends, loans or advances granted to (or from) other Group companies, taking into account, in any case, the specific nature of Credito Privato Commerciale S.A., which has been put into voluntary liquidation.

**5 Other information**

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

- *subsidiaries*: assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis.
  Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;
- *associates*: investments in associates are accounted for using the equity method.

## Section 4 - Subsequent events

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

## Section 5 - Other aspects

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

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

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

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

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- 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 financial statements have to include the financial statements at 30 June 2015 and the comparative financial statements for the following periods:

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

Note that the balance sheet comparatives at 31 December 2014 include figures relating to the subsidiary Banca Popolare di Spoleto S.p.A., unlike the comparatives presented for the period ended 30 June 2014 that do not include figures relating to the subsidiary, as the latter entered the scope of consolidation with effect from 1 August 2014.

In addition, given the disclosure requirements of IFRS 5 for non-current assets and groups of assets held for sale in the financial statements, we have reclassified the balance sheet figures at 30 June 2015 for the assets and liabilities of Rovere S.A., which are currently being sold.

***Domestic tax group election***

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

***Audit***

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

## MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

### Financial assets held for trading

*Recognition*

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

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

*Classification*

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

*Measurement*

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

*Derecognition*

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

*Recognition of items affecting the income statement*

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

**Financial assets available for sale**

*Recognition*

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

*Classification*

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

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

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

*Measurement*

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

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

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

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

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

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

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

*Derecognition*

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

*Recognition of items affecting the income statement*

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

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

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

**Financial assets held to maturity**

*Recognition*

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

*Classification*

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

*Measurement and recognition of items affecting the income statement*

Measurements subsequent to initial recognition are recorded at amortised cost using the effective interest rate method with the contra-entry going to the income statement.
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated. If they do exist, the impairment losses are recognised in the income statement.
If the reasons for making the impairment adjustment cease to apply, the related asset is written back and the amount of the write-back is recognised in the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had if no adjustments had been made previously.
Italian Government securities, which are traded in an active market and for which their fair value is reported in the explanatory notes solely for disclosure purposes, are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (Level 1). Italian and foreign government bonds and Italian and foreign bonds are measured by the use of valuation techniques with reference to a valuation price from an external information provider (Level 2 and 3, based on the significance of unobservable inputs used in the valuation models).

*Derecognition*

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

**Loans and receivables**

*Recognition*

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

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

*Classification*

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

*Measurement*

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.
The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.
The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.
Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.
The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.
Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.
Non-performing loans include the various categories of impaired loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.
The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.
Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.
Specific analyses are carried out for exposures of a significant amount.
Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The evaluation is analytical, and takes account of the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees.
Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.
The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.
The fair value is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2).

*Derecognition*

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

*Recognition of items affecting the income statement*

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.
Interest on arrears is only recorded in the income statement when collected.
The interest that accrues over time as an effect of discounting impaired loans is recognised in the income statement under write-backs.
The effects of analytical and general assessments are recognised in the income statement.
The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.
In the case of loans acquired through business combinations, any higher value recorded in the financial statements on initial recognition is released through the income statement over the life of the loan, based on the repayment plan, or in full in the year that the loan is repaid.

**Hedging transactions**

*Recognition*

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

The recognition of hedging transactions assumes:

- the involvement of external counterparties;
- a specific designation and identification of financial hedging and hedged instruments used for the transaction;

- definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
- passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
- preparation of formal documentation of the hedging relationship.

*Classification*

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

The type of hedge used may be:

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

*Measurement*

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

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

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

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

*Recognition of items affecting the income statement – Fair value hedges*

The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.

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

*Recognition of items affecting the income statement – Cash-flow hedges*

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

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

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

*Derecognition*

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

**Equity investments**

*Recognition*

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

*Classification*

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

*Measurement*

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

*Derecognition*

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

*Recognition of items affecting the income statement*

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

**Property, plant and equipment**

*Recognition*

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.
On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.
Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.
In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

*Classification*

Property, plant and equipment include land, buildings, equipment, furniture and fittings and other office equipment.
These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year.

*Measurement*

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses.
Property, plant and equipment are systematically depreciated, on a straight-line basis at rates that reflect the residual useful life of the asset in question. Exceptions are made for land and works of art, which are not subject to depreciation because of the uncertainty of their useful life, and in view of the fact that normally their value is unlikely to fall over time. Extraordinary maintenance costs are capitalised and depreciated over the residual useful life of the assets to which they relate.
Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.
If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.
Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. The fair value is estimated through the use of property market information sources, appropriately adjusted based on the specifics of the assets and as advised by independent external experts (Level 3).

*Derecognition*

Property, plant and equipment are derecognised on disposal.

*Recognition of items affecting the income statement*

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

**Intangible assets**

*Recognition*

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

*Classification*

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

*Measurement*

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

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

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

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

*Derecognition*

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

*Recognition of items affecting the income statement*

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

**Non-current assets and disposal groups held for sale**

*Recognition*

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

*Classification*

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

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

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

*Measurement and recognition of items affecting the income statement*

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

*Derecognition*

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

**Current and deferred taxation**

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

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

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

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

If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).
Lastly, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.

**Provision for termination indemnities**

*Measurement*

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

*Recognition of items affecting the income statement*

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

**Provisions for risks and charges - Other provisions**

*Classification*

Provisions for risks and charges include provisions made to cover ongoing obligations that are related to work relationship or disputes, also tax disputes that are the result of past events, for the settlement of which it is probable that there will be an outflow of resources that can be reliably estimated.
Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date.
Only when a business combination is being carried out in accordance with IFRS 3, the buyer can recognise a contingent liability at the acquisition date, measured at fair value. Contrary to what is laid down in IAS 37, the buyer can recognise a contingent liability in a business combination at the acquisition date even if it is unlikely that resources that could generate economic benefits will be used to meet the obligation.

*Measurement*

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

*Recognition of items affecting the income statement*

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

**Debts and debt securities in issue**

*Recognition*

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

*Classification*

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

*Measurement and recognition of items affecting the income statement*

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.
Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.
Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.
If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.
Securities issued are shown net of any repurchases.

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

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

*Derecognition*

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

**Financial liabilities held for trading**

*Recognition and classification*

Liabilities held for trading are recorded at fair value.

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

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

*Measurement and recognition of items affecting the income statement*

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

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

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

*Derecognition*

Financial liabilities are derecognised on disposal, expiration or termination.

**Financial liabilities designated at fair value through profit and loss**

*Recognition*

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

*Classification*

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

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

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

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

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

*Measurement and recognition of items affecting the income statement*

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

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

*Derecognition*

Financial liabilities measured at fair value are derecognised on disposal, expiration or termination.
Repurchases of own issues substantially lead to the termination of the part subject to repurchase. The re-placement of own securities previously repurchased is considered as a new issue at the sale value.

**Currency transactions**

*Recognition*

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

*Measurement*

At each annual or interim balance sheet date, caption in foreign currency are valued as follows:
- monetary items: conversion at the exchange rate ruling at the balance sheet date;
- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;
- non-monetary items measured at fair value: conversion at the exchange rate ruling at the balance sheet date.

*Recognition of items affecting the income statement*

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

**Other information**

*Valuation reserves*

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

*Recognition of costs and revenues*

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

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

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and level 2). If these values cannot easily be determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

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

*Finance leases*

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

*Securitisations*

Loans and receivables subject to securitisation transactions completed prior to first-time adoption (FTA) of international accounting standards are not recognised in the financial statements in accordance with the extension option provided by IFRS 1, which makes it possible to avoid booking non-derivative financial assets/liabilities sold or deleted before the date of transition to IFRS (1 January 2004). Exposures to securitisations (in the form of junior securities or deferred purchase price) are classified as loans. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[1] introduced by IFRS 10 (effective from 1 January 2014), it is included within the scope of consolidation.

[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.

According to the breakdown by type, loans and receivables include loans subject to securitisations subsequent to 1 January 2004, which do not have the requisites under IAS 39 for elimination from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained. Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the Bank, is allocated to amounts due to customers.

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

## INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

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

On the other hand, as regards transfers in previous years, it should be noted that in 2008 Banca Popolare di Spoleto applied the "Reclassification of financial assets" with which the IASB amended IAS 39 and IFRS 7 in October 2008.
Under this amendment, on 1 July 2008 Banca Popolare di Spoleto transferred:

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

Banca Popolare di Spoleto did not carry out any other reclassifications in subsequent years.
The following table shows the book values and fair values at 30 June 2015 of the residual financial instruments that were reclassified in 2008, as well as the valuation and other results (interest and gains/losses on disposals) that such instruments would have generated for Banca Popolare di Spoleto in the reference period if they had not been transferred ("Income components in the absence of transfer"). The columns "Income components recorded during the period" show the valuation and other results that Banca Popolare di Spoleto actually recorded on such instruments during the reporting period.

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

*(amounts in thousands of Euro, ex dividend)*

| Type of financial instrument | Source portfolio | Destination portfolio | Book value at 30.06.2015 | Fair value at 30.06.2015 | Income components in the absence of transfer (before tax) | | Income components recorded during the period (before tax) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Valuation | Other | Valuation | Other |
| Debt securities | HFT | L&R - banks | 6,996 | 6,348 | (366) | 46 | | 200 |
| Debt securities | HFT | L&R - customers | 6,243 | 6,214 | 51 | 14 | | 25 |
| Debt securities | AFS | L&R - banks | 5,204 | 5,440 | (126) | 156 | | 92 |
| Debt securities | AFS | L&R - customers | 1,071 | 1,103 | 1 | 13 | | 13 |
| Debt securities | HFT | AFS | 0 | 0 | 0 | 0 | | 0 |
| Equity instruments | HFT | AFS | 0 | 0 | 0 | 0 | | 0 |
| **Total** | | | **19,514** | **19,103** | **(440)** | **229** | **0** | **330** |

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

**Process and sensitivity of valuations**

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

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

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

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

**Fair value hierarchy**

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

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

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

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

**Other information**

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

## Quantitative information

**Fair value hierarchy**

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

| Financial assets/liabilities designated at fair value | 30.06.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 35 | 10,272 | 3,194 | 1,147 | 15,044 | 2,536 |
| 2. Financial assets designated at fair value | | | | | | |
| 3. Financial assets available for sale | 1,590,361 | 75,296 | 18,681 | 1,773,442 | 85,577 | 18,940 |
| 4. Hedging derivatives | | 9,453 | | | 8,372 | |
| 5. Property, plant and equipment | | | | | | |
| 6. Intangible assets | | | | | | |
| **Total** | **1,590,396** | **95,021** | **21,875** | **1,774,589** | **108,993** | **21,476** |
| 1. Financial liabilities held for trading | | 2,927 | 1,727 | | 1,175 | 2,084 |
| 2. Financial liabilities designated at fair value | | 21,845 | | | 23,626 | |
| 3. Hedging derivatives | | 5,379 | | | 6,717 | |
| **Total** | | **30,151** | **1,727** | | **31,518** | **2,084** |

*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 (1.28% compared with 1.13% at end-2014).

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

At 30 June 2015, the impact of applying the Credit Value Adjustment to derivatives with a positive MTM amounts to 26 thousand euro (relating to trading derivatives); as regards instruments with a negative MTM, the impact of applying the Debit Value Adjustment to such derivatives amounts to 4 thousand euro (relating to hedging derivatives).

**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 |
|---|---|---|---|---|---|---|
| **A. Opening balance** | **2,536** | | **18,940** | | | |
| **2. Increases** | **2,801** | | **170** | | | |
| 2.1. Purchases | 8 | | 13 | | | |
| 2.2. Profits posted to: | | | | | | |
| 2.2.1. Income statement | 2,793 | | | | | |
| Capital gains | 2,793 | | | | | |
| 2.2.2. Shareholders' equity | | | | | | |
| 2.3. Transfers from other levels | | | | | | |
| 2.4. Other increases | | | 157 | | | |
| **3. Decreases** | **2,143** | | **429** | | | |
| 3.1. Sales | 5 | | 243 | | | |
| 3.2. Redemptions | | | | | | |
| 3.3. Losses posted to: | | | | | | |
| 3.3.1. Income statement | 2,136 | | 7 | | | |
| of which: capital losses | 2,136 | | 7 | | | |
| 3.3.2. Shareholders' equity | | | 58 | | | |
| 3.4. Transfers to other levels | | | | | | |
| 3.5. Other decreases | 2 | | 121 | | | |
| **4. Closing balance** | **3,194** | | **18,681** | | | |

**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** | **2,084** | | |
| **2. Increases** | 1,727 | | |
| 2.1. Issues | | | |
| 2.2. Losses posted to: | | | |
| 2.2.1. Income statement | 1,727 | | |
| *- of which: capital losses* | *1,727* | | |
| 2.2.2. Shareholders' equity | | | |
| 2.3. Transfers from other levels | | | |
| 2.4. Other increases | | | |
| **3. Decreases** | **2,084** | | |
| 3.1. Redemptions | | | |
| 3.2. Repurchases | | | |
| 3.3. Profits posted to: | | | |
| 3.3.1. Income statement | 2,084 | | |
| *- of which: capital gains* | *2,084* | | |
| 3.3.2. Shareholders' equity | | | |
| 3.4. Transfers to other levels | | | |
| 3.5. Other decreases | | | |
| **4. Closing balance** | **1,727** | | |

***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 | 30.06.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets held to maturity | | | | | | | | |
| 2. Due from banks | 196,050 | | 8,796 | 186,470 | 288,282 | | 4,520 | 283,498 |
| 3. Loans to customers | 9,500,886 | | 4,778,122 | 4,976,386 | 9,666,900 | | 4,027,996 | 5,947,204 |
| 4. Investment property | 1,180 | | | 1,034 | 1,188 | | | 1,335 |
| 5. Non-current assets and disposal groups held for sale | 2,370 | | | | | | | |
| ***Total*** | ***9,700,486*** | | ***4,786,918*** | ***5,163,890*** | ***9,956,370*** | | ***4,032,516*** | ***6,232,037*** |
| 1. Due to banks | 728,207 | | | 728,207 | 1,017,467 | | | 1,017,467 |
| 2. Due to customers | 7,584,752 | | | 7,584,752 | 7,444,025 | | | 7,444,025 |
| 3. Debt securities in issue | 2,317,548 | | 1,932,662 | 376,799 | 2,798,752 | | 2,104,030 | 690,435 |
| 4. Liabilities associated with assets held for sale | 1,412 | | | | | | | |
| ***Total*** | ***10,631,919*** | | ***1,932,662*** | ***8,689,758*** | ***11,260,244*** | | ***2,104,030*** | ***9,151,927*** |

## 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**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| a) Cash | 54,439 | 62,890 |
| b) Demand deposits with central banks | | |
| **Total** | **54,439** | **62,890** |

## Financial assets held for trading - caption 20

**2.1 Financial assets held for trading: breakdown**

| Captions/Amounts | 30.06.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | 3 | 2,393 | | 6 | 7,279 | |
| *1.1 Structured securities* | | *248* | | | | |
| *1.2 Other debt securities* | *3* | *2,145* | | *6* | *7,279* | |
| 2. Equity instruments | | | 401 | | | 400 |
| *3. UCITS units* | *1* | | | *1,105* | | |
| 4. Loans | | | | | | |
| *4.1 Repurchase agreements* | | | | | | |
| *4.2 Other* | | | | | | |
| **Total A** | **4** | **2,393** | **401** | **1,111** | **7,279** | **400** |
| **B. Derivatives:** | | | | | | |
| 1. Financial derivatives: | 31 | 7,879 | 2,793 | 36 | 7,704 | 2,136 |
| *1.1 for trading* | *31* | *6,869* | *2,793* | *36* | *6,365* | *2,136* |
| *1.2 connected with the fair value option* | | *1,010* | | | *1,339* | |
| *1.3 other* | | | | | | |
| 2. Credit derivatives | | | | | 61 | |
| *2.1 for trading* | | | | | *61* | |
| *2.2 connected with the fair value option* | | | | | | |
| *2.3 other* | | | | | | |
| **Total B** | **31** | **7,879** | **2,793** | **36** | **7,765** | **2,136** |
| **Total (A+B)** | **35** | **10,272** | **3,194** | **1,147** | **15,044** | **2,536** |

Caption 20 "Financial assets held for trading" comprises:

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

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

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

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

| Captions/Amounts | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **A. Cash assets** | | |
| **1. Debt securities** | **2,396** | **7,285** |
| *a) Government and central banks* | *984* | *373* |
| *b) Other public entities* | | |
| *c) Banks* | *1,411* | *6,906* |
| *d) Other issuers* | *1* | *6* |
| **2. Equity instruments** | **401** | **400** |
| a) Banks | | |
| b) Other issuers: | 401 | 400 |
| *- insurance companies* | | |
| *- financial companies* | | |
| *- non-financial companies* | *401* | *400* |
| *- other* | | |
| **3. UCITS units** | **1** | **1,105** |
| **4. Loans** | | |
| *a) Government and central banks* | | |
| *b) Other public entities* | | |
| *c) Banks* | | |
| *d) Other parties* | | |
| **Total A** | **2,798** | **8,790** |
| **B. Derivatives** | | |
| a) Banks | 9,383 | 8,215 |
| *- Fair value* | *9,383* | *8,215* |
| b) Customers | 1,320 | 1,722 |
| *- Fair value* | *1,320* | *1,722* |
| **Total B** | **10,703** | **9,937** |
| **Total (A+B)** | **13,501** | **18,727** |

## Financial assets available for sale - caption 40

**4.1 Financial assets available for sale: breakdown**

| Captions/Amounts | 30.06.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Debt securities | 1,534,939 | 75,296 | | 1,733,032 | 85,577 | |
| *1.1 Structured securities* | | *9,195* | | | *6,875* | |
| *1.2 Other debt securities* | *1,534,939* | *66,101* | | *1,733,032* | *78,702* | |
| 2. Equity instruments | 288 | | 13,867 | 140 | | 14,068 |
| *2.1 Valued at fair value* | *288* | | | *140* | | *4,895* |
| *2.2 Valued at cost* | | | *13,867* | | | *9,173* |
| 3. UCITS units | 55,134 | | 4,814 | 40,270 | | 4,872 |
| 4. Loans | | | | | | |
| **Total** | **1,590,361** | **75,296** | **18,681** | **1,773,442** | **85,577** | **18,940** |

Caption "Financial assets available for sale" comprises:

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

Debt securities include securities associated with repurchase agreements.

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

| Captions/Amounts | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **1. Debt securities** | **1,610,235** | **1,818,609** |
| a) Government and central banks | 1,541,606 | 1,739,779 |
| b) Other public entities | | |
| c) Banks | 64,250 | 77,667 |
| d) Other issuers | 4,379 | 1,163 |
| **2. Equity instruments** | **14,155** | **14,208** |
| a) Banks | 444 | 303 |
| b) Other issuers: | 13,711 | 13,905 |
| *- insurance companies* | | |
| *- financial companies* | *2,837* | *3,128* |
| *- non-financial companies* | *10,406* | *10,477* |
| *- other* | *468* | *300* |
| **3. UCITS units** | **59,948** | **45,142** |
| **4. Loans** | | |
| a) Government and central banks | | |
| b) Other public entities | | |
| c) Banks | | |
| d) Other parties | | |
| **Total** | **1,684,338** | **1,877,959** |

## Due from banks - caption 60

**6.1 Due from banks: breakdown**

| Type of transaction/Amounts | 30.06.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **A. Due from central banks** | **43,157** | | | 43,157 | **81,319** | | | 81,319 |
| 1. Restricted deposits | | | | | | | | |
| 2. Reserve requirement | 43,157 | | | | 81,319 | | | |
| 3. Repurchase agreements | | | | | | | | |
| 4. Other | | | | | | | | |
| **B. Due from banks** | **152,893** | | | | **206,963** | | | |
| 1. Loans | 136,270 | | | 132,906 | 152,921 | | | 152,723 |
| 1.1 Current accounts and demand deposits | 88.607 | | | | 96,613 | | | |
| 1.2 Restricted deposits | 47,393 | | | | 56,276 | | | |
| 1.2.1 Mandatory reserve requirement met indirectly | | | | | | | | |
| 1.2.2 Other | 47,393 | | | | 56,276 | | | |
| 1.3 Other loans: | 270 | | | | 32 | | | |
| - Repurchase agreements | | | | | | | | |
| - Finance leases | | | | | | | | |
| - Other | 270 | | | | 32 | | | |
| 2. Debt securities | 16,623 | | 8,796 | 10,407 | 54,042 | | 4,520 | 49,456 |
| 2.1 Structured securities | 6,215 | | | | 25,013 | | | |
| 2.2 Other debt securities | 10,408 | | | | 29,029 | | | |
| **Total** | **196,050** | | **8,796** | **186,470** | **288,282** | | **4,520** | **283,498** |

Key:

FV = fair value

BV = book value

The table is shown net of the loans pertaining to Rovere S.A. for Euro 1,652 thousand, which have been reclassified to "Non-current assets and disposal groups held for sale" in accordance with IFRS 5.

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

At 30 June, Banco Desio Brianza's commitment to maintain the reserve requirement, also on behalf of its subsidiary Banca Popolare di Spoleto following the authorisation given by the Bank of Italy from the maintenance period 28 January - 10 March 2015, amounts to Euro 81.2 million (versus Euro 59.6 million and Euro 22.4 million undertaken in December 2014 by Banco Desio Brianza and Banca Popolare di Spoleto, respectively).

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

## Loans to customers - caption 70

**7.1 Loans to customers: breakdown**

| Type of transaction/Amounts | 30.06.2015 | | | | | | 31.12.2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 8,614,073 | | 874,733 | | 4,766,060 | 4,976,386 | 8,800,885 | | 853,966 | | 4,016,035 | 5,947,204 |
| 1. Current accounts | 1,688,127 | | 194,245 | | | | 1,696,722 | | 196,029 | | | |
| 2. Repurchase agreements | 103,021 | | | | | | 198,361 | | | | | |
| 3. Mortgage loans | 4,832,045 | | 471,985 | | | | 4,870,445 | | 448,751 | | | |
| 4. Credit cards, personal loans and assignments of one-fifth of salary | 547,920 | | 7,975 | | | | 538,125 | | 7,043 | | | |
| 5. Finance leases | 387,686 | | 25,979 | | | | 417,456 | | 29,065 | | | |
| 6. Factoring | 22,464 | | 388 | | | | 22,776 | | 373 | | | |
| 7. Other loans | 1,032,810 | | 174,161 | | | | 1,057,000 | | 172,705 | | | |
| Debt securities | 12,080 | | | | 12,062 | | 12,049 | | | | 11,961 | |
| 8. Structured securities | | | | | | | | | | | | |
| 9. Other debt securities | 12,080 | | | | | | 12,049 | | | | | |
| **Total** | **8,626,153** | | **874,733** | | **4,778,122** | **4,976,386** | **8,812,934** | | **853,966** | | **4,027,996** | **5,947,204** |

Gross loans totalled Euro 10,315,518 thousand (Euro 10,516,165 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 and the separate assets of the SPV Spoleto Mortgages S.r.l. Total write-downs amount to Euro 814,632 thousand (Euro 849,265 thousand in December 2014).

"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 | 30.06.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Performing loans | Non-performing loans | | Performing loans | Non-performing loans | |
| | | Purchased | Other | | Purchased | Other |
| **1. Debt securities** | **12,080** | | | **12,049** | | |
| a) Governments | | | | | | |
| b) Other public entities | | | | | | |
| c) Other issuers | 12,080 | | | 12,049 | | |
| *- non-financial companies* | | | | | | |
| *- financial companies* | *12,080* | | | *12,049* | | |
| *- insurance companies* | | | | | | |
| *- other* | | | | | | |
| **2. Loans to:** | **8,614,073** | | **874,733** | **8,800,885** | | **853,966** |
| a) Governments | 24,664 | | | 25,118 | | |
| b) Other public entities | 8,701 | | 92 | 10,072 | | 97 |
| c) Other parties | 8,580,708 | | 874,641 | 8,765,695 | | 853,869 |
| *- non-financial companies* | *5,574,609* | | *669,052* | *5,574,286* | | *654,887* |
| *- financial companies* | *218,716* | | *959* | *325,690* | | *1,216* |
| *- insurance companies* | *3,674* | | | *5,100* | | |
| *- other* | *2,783,709* | | *204,630* | *2,860,619* | | *197,766* |
| **Total** | **8,626,153** | | **874,733** | **8,812,934** | | **853,966** |

**7.3 Loans to customers: assets with specific hedges**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| 1. Loans with specific fair value hedges | 21,173 | 31,129 |
| a) Interest rate risk | 21,173 | 31,129 |
| 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** | **21,173** | **31,129** |

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

## Hedging derivatives - caption 80

**8.1 Hedging derivatives: breakdown by type and level**

| Type of transaction/Amounts | 30.06.2015 | | | | 30.06.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | FV | | | NV | FV | | | NV |
| | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | |
| **A) Financial derivatives** | | 9,453 | | 166,628 | | 8,372 | | 107,483 |
| 1) Fair value | | 7,674 | | 86,628 | | 8,372 | | 107,483 |
| 2) Cash flows | | 1,779 | | 80,000 | | | | |
| 3) Foreign investments | | | | | | | | |
| **B) Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **9,453** | | **166,628** | | **8,372** | | **107,483** |

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 | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **1. Positive adjustments** | **1,443** | **2,478** |
| 1.1 of specific portfolios: | 1,443 | 2,478 |
| *a) loans* | *1,443* | *2,478* |
| *b) financial assets available for sale* | | |
| 1.2 total | | |
| **2. Negative adjustments** | | |
| 2.1 of specific portfolios: | | |
| *a) loans* | | |
| *b) financial assets available for sale* | | |
| 2.2 total | | |
| **Total** | **1,443** | **2,478** |

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**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| 1. Loans and receivables | 8,726 | 9,970 |
| 2. Financial assets available for sale | | |
| 3. Portfolio | | |
| **Total** | **8,726** | **9,970** |

At 30 June 2015, there are portfolios of fixed-rate mortgages and loans to customers subject to macro-hedging of interest rate risk for a total residual amount of Euro 8,726 thousand, with maturities between 2021 and 2037.

## 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 |
| Istifid S.p.A. | Milan | Milan | 4 | Banco Desio | 31.389 | 30.891 |

***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 | 13,120 | | 722 |
| **Total** | 13,120 | | 722 |

**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)] | X | 50,657 | 13,913 | | 12,356 | 27,938 | X | X | 4,634 | 2,914 | | 2,914 | | 2,914 |

(1) Figures refer to the 2014 financial statements, the latest financial statements to be approved

**10.4 Not significant equity investments: accounting information**

| Name | Book value of equity investments | Total assets | Total liabilities | Total revenues | 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) |
|---|---|---|---|---|---|---|---|---|---|
| **Associates subject to significant influence [1]** | 2,368 | 12,702 | 8,320 | 5,185 | 294 | | 294 | | 294 |

(1) Figures refer to the 2014 financial statements, the latest financial statements to be approved

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

According to the provisions of IAS 36 and taking into account the information contained in the joint 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 is designed to check that the carrying amount of equity investments does not exceed their recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the investment.

The process of impairment testing of equity investments has remained the same as at 31 December 2014.

The verification at 30 June 2015 of the existence of indications of impairment of equity investments in companies subject to significant influence had a negative outcome, with the exception of the investment in Chiara Assicurazioni Spa.

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

The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment tests performed for financial statement purposes at 31 December 2014. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans/gross premiums in terms of CAGR, capital ratios and the cost of capital (Ke).

As a result of this analysis, no trigger events were identified that would have required impairment testing to be repeated or the recognition of write-downs in the interim consolidated financial report for the period ended 30 June 2015, with the exception of the investment in the associated company Chiara Assicurazioni Spa, for which there was a need to repeat impairment testing due to the fact that the result for the period was lower than forecast by the development plan for the company and the amount of the difference exceeded the threshold established by internal policy for the analysis of a trigger event.

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

a) Criterion to estimate the recoverable amount (impairment)

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

"Explicit" time period for the determination of future cash flows
The time horizon for impairment testing of the associate Chiara Assicurazioni Spa is the period covered by the 2015-2019 business development plan backed by contractual arrangements for the period 2013-2022 executed with Helvetia Group, appropriately revised at the reporting date in order to be more conservative, based on more recent indications provided by company management.

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

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

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

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

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

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

| Legal entity | Model | Input used | CAGR Gross premiums | Ke | g | Currency | Plan flows | Capital ratio |
|---|---|---|---|---|---|---|---|---|
| Chiara Assicurazioni Spa | DDM | Updated 2015-2019 development plan backed by the 2013-2022 contractual agreements | 2.38% | 8.56% | 1.5% | € | Net results | (*) |
| (*) Complies with the requirements of the respective industry specific or local regulatory authorities in the countries where the entity is located. | | | | | | | | |

As a result of the impairment testing performed, no write-down was needed of the aforementioned equity investment.
It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

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

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

| Equity investments | SCR multiplier (*) | Increase in p.p. of discount rate used for future cash flows (FCFE) | Decrease in p.p. of growth rate in projections used to calculate the terminal value |
|---|---|---|---|
| Chiara Assicurazioni Spa | 120% | 660 | 446 |
| | 150% | 550 | 266 |
| (*) Sensitivity measured on the basis of two different scenarios for capital allocation: of 120% and of 150% of the SCR Solvency Capital Requirement – Solvency II – IVASS | | | |

**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 and Istifid SpA, are as follows:

- Chiara Assicurazioni SpA: 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.

- Istifid SpA: Banco di Desio e della Brianza S.p.A. has a 31.389% holding in the company's share capital, with the presence on the Board of Directors of one director nominated by the Parent Company out of a total of four members. There is also another member nominated by the reference shareholder and two independent members (including the Chairman). In the absence of any Shareholders' Agreement, the resolutions of the Board of Directors are taken by a majority; this level of representation does not constitute joint control, but only a significant influence.

**10.7 Commitments relating to investments in companies under joint control**

There are no commitments at 30.06.2015 relating to equity investments in companies under joint control.

**10.8 Commitments relating to investments in companies subject to significant influence**

As regards companies subject to significant influence, for Istifid SpA there were no commitments outstanding at 30.06.2015 or risks associated with contingent liabilities related to this investment.

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 2015 interim report the company, which closed the last two years with gross premiums exceeding the benchmark, achieved gross premiums that do not foresee significant changes in 2015 with respect to forecasts of the company's 2015-2017 development plan and with respect to budget targets for gross premiums also in excess of this parameter.

Note also that the contract provides for a commitment on the part of the selling shareholders to buy on a pro-rata basis (Banco Desio's share of 66.6%) 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 Spa (equal to 1.99%) held by Chiara Assicurazioni Spa.

At the reporting date, taking into account the equity value of the shareholding (1.99%) as per the last financial statements published by Cassa di Risparmio di Rimini Spa, there are no factors that suggest a need to make a provision for risks and charges for such a purchase commitment.

**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 | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **1 Own assets** | **182,328** | **184,699** |
| a) land | 52,541 | 52,581 |
| b) property | 111,042 | 111,950 |
| c) furniture | 7,924 | 7,963 |
| d) electronic systems | 5,339 | 6,024 |
| e) other | 5,483 | 6,181 |
| **2 Assets purchased under finance lease** | | |
| a) land | | |
| b) property | | |
| c) furniture | | |
| d) electronic systems | | |
| e) other | | |
| **Total** | **182,329** | **184,699** |

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

The table is shown net of fixed assets for Euro 8 thousand relating to the subsidiary Rovere S.A., reclassified to "Non-current assets and groups of assets held for sale" in accordance with IFRS 5.

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

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

**12.2 Investment property: breakdown of assets valued at cost**

| Assets/Amounts | 30.06.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair value | | | | Fair value | | |
| | Book value | L1 | L2 | L3 | Book value | L1 | L2 | L3 |
| **1. Own assets** | **1,180** | | | **1,034** | **1,188** | | | **1,061** |
| a) land | 498 | | | 436 | 498 | | | 436 |
| b) property | 682 | | | 598 | 690 | | | 625 |
| **2. Assets purchased under finance leases** | | | | | | | | |
| a) land | | | | | | | | |
| b) property | | | | | | | | |
| **Total** | 1,180 | | | 1,034 | 1,188 | | | 1,061 |

## Intangible assets - caption 130

**13.1 Intangible assets: breakdown by type**

| Assets/Amounts | 30.06.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | 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 | 2,721 | | 3,062 | |
| A.2.1 Carried at cost: | 2,721 | | 3,062 | |
| a) Intangible assets generated internally | | | | |
| b) Other assets | 2,721 | | 3,062 | |
| A.2.2 Carried at fair value: | | | | |
| a) Other intangible assets generated internally | | | | |
| b) Other assets | | | | |
| **Total** | **2,721** | **15,322** | **3,062** | **15,322** |

The table is shown net of fixed assets for Euro 1 thousand relating to Rovere S.A., which have been reclassified to "Non-current assets and groups of assets held for sale" in accordance with IFRS 5.

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

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

The process of impairment testing of the CGUs has remained the same as at 31 December 2014.

As a result of the transfer of the Tuscany and Lazio branches from the Parent Company to Banca Popolare di Spoleto Spa, goodwill of Euro 8.068 million has also been transferred to the latter, recorded under intangible assets with an indefinite useful life by the Parent Company Banco Desio; at the same time, the Milan branch was sold by Banca Popolare di Spoleto to the Parent Company.

Impairment testing has been carried out at 30 June 2015 to check whether the CGUs had incurred losses in any of the three legal entities (Banca Popolare di Spoleto, Banco di Desio e della Brianza S.p.A. and Fides S.p.A.) identified as CGUs.

In particular, in order to verify the possible existence of conditions that would have required the impairment tests to be repeated at the date of this financial report, monitoring was carried out on some qualitative and quantitative indicators of presumed impairment for each CGUs, or legal entities, as well as for the Banco Desio Group as a whole (level 2 test, again considering the market capitalisation). The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment tests carried out for financial statement purposes at 31 December 2014. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of RWA, capital ratios and the cost of capital (Ke).

The check based on these indicators did not reveal any need to redo the impairment test for the legal entities Banca di Desio e della Brianza S.p.A. and Fides S.p.A. On the other hand, it was decided to redo the impairment test on the goodwill associated with the CGU that coincides with Banca Popolare di Spoleto in the form that it took as a result of the extraordinary transactions explained earlier.

Impairment testing for this CGU was therefore carried out directly on the legal entity Banca Popolare di Spoleto Spa on the basis of the criteria and assumptions set out below.

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

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

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" ("equity value" for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon used is the same as the 2015-2017 Business Plan approved by the Directors in February 2015, as well as the further development of this plan, prepared by the management, with projections of future results extended to include an explicit forecast period of five years, to minimise potential distortions from using only the time horizon of the Business Plan. In the current climate, it could be strongly influenced by a complex systemic situation because of the considerable uncertainty in forecasting the macroeconomic scenario; this because of the prolonged effects of the economic and financial crisis, the lasting impacts that it had on the money market and on interest rates, or otherwise connected with extraordinary events in respect of which it is appropriate to try to normalise the results so as to focus better on the effective medium/long term potential the entity being tested.

Cash flows

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

Discount rate

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

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

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

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

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

| CGU | Model | Input used | CAGR RWA | Ke | g | Plan flows | Capital ratio |
|---|---|---|---|---|---|---|---|
| Banca Popolare di Spoleto Spa | DDM | 2015-2017 Business Plan (*) extended to 2019 | 4.47% | 8.00% | 1.5% | Net results | CET 1 8.5% (**) |

(*) Considering estimated future cash flows that take into account the 2015 interim report and the effects of the transactions that took place from 01.04.2015, involving the transfer of the Tuscany and Lazio branches by Banco Desio and the simultaneous sale of the Milan branch by Banca Popolare di Spoleto to Banco Desio.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

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

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

| CGU | Increase in p.p. of discount rate used for future cash flows (FCFE) | Decrease in p.p. of growth rate over the plan (g) for the calculation of the terminal value |
|---|---|---|
| Banca Popolare di Spoleto Spa | 163 | 792 |

As a result of this analysis, there is no need to make write-downs in the interim consolidated financial report for the period ended 30 June 2015 for any of the CGUs nor for the Group (also considering the situation of the associate Chiara Assicurazioni Spa, as mentioned previously).

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

### 14.1 Deferred tax assets: breakdown

| | Ires | Irap | 30.06.2015 | 31.12.2014 |
|---|---|---|---|---|
| **A) With contra-entry to the income statement:** | | | | |
| Tax losses | 1,635 | | 1,635 | 6,213 |
| Tax deductible goodwill | 2,755 | 558 | 3,313 | 2,839 |
| Write-down of loans to customers deductible on a straight-line basis | 147,062 | 18,529 | 165,591 | 170,887 |
| 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 | 556 | 87 | 643 | 87 |
| Provision for guarantees and commitments and country risk | 490 | | 490 | 511 |
| Provisions for personnel costs | 4,924 | 857 | 5,781 | 5,222 |
| Provision for lawsuits | 4,051 | | 4,051 | 4,297 |
| Provision for claw-backs | 1,326 | 610 | 1,936 | 1,461 |
| Provision for sundry charges | 248 | | 248 | 320 |
| Tax provision for termination indemnities | 281 | | 281 | 303 |
| Entertainment expenses, one third of which is deductible over four subsequent years | 109 | | 109 | |
| Other general expenses deductible in the following year | 8 | | 8 | 27 |
| Other | 2,004 | 368 | 2,372 | 2,703 |
| **Total A** | **165,763** | **21,009** | **186,772** | **195,184** |
| **B) With contra-entry to shareholders' equity:** | | | | |
| Tax provision for termination indemnities | 954 | 11 | 965 | 1,055 |
| Write-down of securities classified as AFS | 6,045 | 1,232 | 7,277 | 936 |
| Write-down of equity investments | | | | |
| **Total B** | **6,999** | **1,243** | **8,242** | **1,991** |
| **Total (A+B)** | **172,762** | **22,252** | **195,014** | **197,175** |

Changes in deferred tax assets relating to write-downs of loans to customers have been made in accordance with art. 16 of Decree Law 83 of 27 June 2015. In particular, deferred tax assets on 25% of the net write-downs of loans at 30/06/2015 have been recognised and no "reversals" have been made of the fifths and eighteenths of them relating to prior years, which are deductible from 2016 onwards.

### 14.2 Deferred tax liabilities: breakdown

| | IRES | IRAP | 30.06.2015 | 31.12.2014 |
|---|---|---|---|---|
| **A) With contra-entry to the income statement:** | | | | |
| Gains on disposal of property, plant and equipment | | | | |
| Tax depreciation of buildings | 6,696 | 871 | 7,567 | 7,569 |
| Tax depreciation of property, plant and equipment | | 15 | 15 | 15 |
| Tax amortisation of goodwill | 474 | 96 | 570 | 1,231 |
| 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 | 890 | | 890 | 657 |
| Other | 15,384 | 2,786 | 18,170 | 16,040 |
| **Total A** | **23,466** | **3,773** | **27,239** | **25,539** |
| **B) With contra-entry to shareholders' equity** | | | | |
| Cash flow hedge | 486 | 99 | | |
| Revaluation of AFS securities | 2,945 | 615 | 3,560 | 8,431 |
| Revaluation of equity investments | 6 | 24 | 30 | 30 |
| Tax provision for termination indemnities | 70 | | 70 | |
| **Total B** | **3,507** | **738** | **4,245** | **8,461** |
| **Total (A+B)** | **26,973** | **4,511** | **31,484** | **34,000** |

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**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **A. Individual assets** | | |
| A.1 Financial assets | | |
| A.2 Equity investments | | |
| A.3 Property, plant and equipment | | |
| A.4 Intangible assets | | |
| A.5 Other non-current assets | | |
| **Total A** | | |
| 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 | | |
| **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 | 1,652 | |
| B.6 Loans to customers | | |
| B.7 Equity investments | | |
| B.8 Property, plant and equipment | 8 | |
| B.9 Intangible assets | 1 | |
| B.10 Other assets | 709 | |
| **Total B** | **2,370** | |
| of which carried at cost | 2,370 | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |
| **C. Liabilities associated with assets held for sale** | | |
| C.1 Payables | | |
| C.2 Securities | | |
| C.3 Other liabilities | | |
| **Total C** | | |
| of which carried at cost | | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |
| **D. Liabilities associated with groups of assets held for sale** | | |
| D.1 Due to banks | | |
| D.2 Due to customers | | |
| D.3 Debt securities in issue | | |
| D.4 Financial liabilities held for trading | | |
| D.5 Financial liabilities designated at fair value through profit and loss | | |
| D.6 Provisions | | |
| D.7 Other liabilities | 1,412 | |
| **Total D** | **1,412** | |
| of which carried at cost | 1,412 | |
| 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 after the tables of the relevant captions, refer to the subsidiary Rovere S.A., which is being sold following the strategic policy resolution adopted by the Board of Directors of the Parent Company on 28 April 2015.

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

## Other assets - caption 160

**16.1 Other assets: breakdown**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| Tax credits | | |
| - capital | 8,974 | 8,749 |
| - interest | 30 | |
| Amounts recoverable from the tax authorities for advances paid | 46,267 | 46,894 |
| Withholding tax credits | 1,996 | 3 |
| Cheques negotiated to be cleared | 23,389 | 21,911 |
| Guarantee deposits | 2 | 2 |
| Invoices issued to be collected | 1,807 | 1,031 |
| Debtors for securities and coupons to be collected by third parties | 76 | |
| Printer consumables and stationery | | |
| Items being processed and in transit with branches | 63,293 | 57,568 |
| Currency spreads on portfolio transactions | 26 | 214 |
| Investments of the supplementary fund for termination indemnities | 432 | 443 |
| Leasehold improvement expenditure | 18,384 | 19,495 |
| Accrued income and prepaid expenses | 2,742 | 874 |
| Other items | 15,857 | 20,761 |
| **Total** | **183,275** | **177,945** |

The figures in the table are shown net of Euro 709 thousand of assets belonging to Rovere S.A., which have been reclassified to "Non-current assets and groups of assets held for sale" in accordance with IFRS 5.

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

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

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

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

The most significant component of "Other items" relates to some Euro 6,249 thousand of receivables still to be collected.

The caption also includes the receivable of Euro 595 thousand from the former liquidator of Brianfid Lux S.A. 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.

# LIABILITIES

## Due to banks - caption 10

**1.1 Due to banks: breakdown**

| Type of transaction/Amounts | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **1. Due to central banks** | **550,587** | **897,356** |
| **2. Due to banks** | **177,620** | **120,111** |
| 2.1 Current accounts and demand deposits | 49,511 | 67,068 |
| 2.2 Restricted deposits | 11,368 | 15,548 |
| 2.3 Loans | 116,701 | 37,369 |
| 2.3.1 Repurchase agreements | | |
| 2.3.2 Other | 116,701 | 37,369 |
| 2.4 Payables for commitments to repurchase own equity instruments | | |
| 2.5 Other payables | 40 | 126 |
| **Total** | **728,207** | **1,017,467** |
| **Fair value - level 1** | | |
| **Fair value - level 2** | | |
| **Fair value - level 3** | **728,207** | **1,017,467** |
| **Total fair value** | **728,207** | **1,017,467** |

## Due to customers - caption 20

**2.1 Due to customers: breakdown**

| Type of transaction/Amounts | 30.06.2015 | 31.12.2014 |
|---|---|---|
| 1. Current accounts and demand deposits | 6,620,380 | 6,480,589 |
| 2. Restricted deposits | 860,979 | 744,940 |
| 3. Loans | 65,011 | 193,541 |
| 3.1 Repurchase agreements | 40,001 | 165,751 |
| 3.2 Other | 25,010 | 27,790 |
| 4. Payables for commitments to repurchase own equity instruments | | |
| 5. Other payables | 38,382 | 24,955 |
| **Total** | **7,584,752** | **7,444,025** |
| **Fair value - level 1** | | |
| **Fair value - level 2** | | |
| **Fair value - level 3** | **7,584,752** | **7,444,025** |
| **Fair value** | **7,584,752** | **7,444,025** |

## Debt securities in issue - caption 30

**3.1 Debt securities in issue: breakdown**

| | 30.06.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **A. Securities** | | | | | | | | |
| 1. Bonds | 1,956,322 | | 1,932,662 | 15,574 | 2,129,298 | | 2,104,030 | 20,981 |
| *1.1 structured* | *15,272* | | *15,535* | | *51,739* | | *51,739* | |
| *1.2 other* | *1,941,050* | | *1,917,127* | *15,574* | *2,077,559* | | *2,052,291* | *20,981* |
| 2. Other securities | 361,226 | | | 361,225 | 669,454 | | | 669,454 |
| *2.1 structured* | | | | | | | | |
| *2.2 other* | *361,226* | | | *361,225* | *669,454* | | | *669,454* |
| **Total** | **2,317,548** | | **1,932,662** | **376,799** | **2,798,752** | | **2,104,030** | **690,435** |

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 193,142 thousand were issued with a short term maturity and Euro 167,202 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 881 thousand that have reached maturity and which are due to be redeemed.

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

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

| Bonds | Issue date | Maturity date | Currency | Rate | 30.06.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|
| ***Issued by the Parent Company*** | | | | | | |
| ISIN code IT0004654866 | 01.12.2010 | 01.12.2015 | EUR | FR | 12,991 | 12,998 |
| ISIN code IT0004780182 | 29.12.2011 | 29.12.2016 | EUR | FR | 12,999 | 13,001 |
| ISIN code IT0004815855 | 15.06.2012 | 15.06.2017 | EUR | FR | 13,010 | 13,010 |
| ISIN code IT0004921166 | 03.06.2013 | 03.06.2018 | EUR | FR | 13,024 | 13,027 |
| ISIN code IT0005038085 | 28.08.2014 | 28.08.2019 | EUR | FR | 50,408 | 50,441 |
| ISIN code IT0005070179 | 22.12.2014 | 22.12.2019 | EUR | FR | 50,018 | 50,024 |
| ISIN code IT0005107880 | 28.05.2015 | 28.05.2022 | EUR | FR | 80,069 | |
| ***Issued by Subsidiaries*** | | | | | | |
| ISIN code IT0003957112 | 07.12.2005 | 07.12.2015 | EUR | FR | 29,938 | 29,846 |
| ISIN code IT0004331598 | 15.04.2008 | 15.04.2018 | EUR | FR | 8,206 | 8,209 |
| ISIN code IT0004344278 | 18.04.2008 | 18.04.2018 | EUR | FR | 10,849 | 10,851 |
| **Total** | | | | | **281,512** | **201,407** |

During the year, Banco Desio issued a subordinated bond with the following characteristics, similar to those of the loans issued in previous years:

- duration: 7 years;
- interest rate: floating, with coupon paid quarterly;
- redemption: in a lump sum on maturity;
- early redemption clause: not foreseen;
- repurchase: the repurchase of securities of this kind is subject to prior approval of the credit line by the Bank of Italy;
- subordination: the subordination clauses envisage that, in the event of the issuer's liquidation, the bonds will only be redeemed once all the other creditors not equally subordinated have been satisfied.

## Financial liabilities held for trading - caption 40

**4.1 Financial liabilities held for trading: breakdown**

| Type of transaction/Members of the group | 30.06.2015 | | | | | 31.12.2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | FV | | | FV* | NV | FV | | | FV* |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. Cash liabilities** | | | | | | | | | | |
| 1. Due to banks | | | | | | | | | | |
| 2. Due to customers | | | | | | | | | | |
| 3. Debt securities | | | | | | | | | | |
| 3.1 Bonds | | | | | | | | | | |
| 3.1.1 Structured | | | | | | | | | | |
| 3.1.2 Other bonds | | | | | | | | | | |
| 3.2 Other securities | | | | | | | | | | |
| 3.2.1 Structured | | | | | | | | | | |
| 3.2.2 Other | | | | | | | | | | |
| **Total A** | | | | | | | | | | |
| **B. Derivatives** | | | | | | | | | | |
| 1. Financial derivatives | | | 2,927 | 1,727 | | | | 1,175 | 2,084 | |
| 1.1 For trading | | | 2,927 | 1,727 | | | | 1,175 | 2,084 | |
| 1.2 Connected with the fair value option | | | | | | | | | | |
| 1.3 Other | | | | | | | | | | |
| 2. Credit derivatives | | | | | | | | | | |
| 2.1 For trading | | | | | | | | | | |
| 2.2 Connected with the fair value option | | | | | | | | | | |
| 2.3 Other | | | | | | | | | | |
| **Total B** | | | **2,927** | **1,727** | | | | **1,175** | **2,084** | |
| **Total A+B** | | | **2,927** | **1,727** | | | | **1,175** | **2,084** | |

***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 | 30.06.2015 | | | | | 31.12.2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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** | **21,250** | | **21,845** | | **22,376** | **22,850** | | **23,626** | | **24,386** |
| 3.1 Structured | 21,250 | | 21,845 | | | 22,850 | | 23,626 | | |
| 3.2 Other | | | | | | | | | | |
| **Total** | **21,250** | | **21,845** | | **22,376** | **22,850** | | **23,626** | | **24,386** |

Key:

FV = fair value

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

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

## Hedging derivatives - caption 60

**6.1 Hedging derivatives: breakdown by type and level**

| | 30.06.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value | | | NV | Fair value | | | NV |
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | **5,379** | | **34,792** | | **6,717** | | **32,369** |
| 1) Fair value | | 5,379 | | 34,792 | | 6,717 | | 32,369 |
| 2) Cash flows | | | | | | | | |
| 3) Foreign investments | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **5,379** | | **34,792** | | **6,717** | | **32,369** |

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Other liabilities - caption 100

**10.1 Other liabilities: breakdown**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| Due to tax authorities | 1,549 | 1,344 |
| Amounts payable to tax authorities on behalf of third parties | 36,741 | 22,929 |
| Social security contributions to be paid | 6,035 | 5,098 |
| Dividends due to shareholders | 6 | 8 |
| Suppliers | 13,707 | 17,014 |
| Amounts available to customers | 19,658 | 13,610 |
| Interest and dues to be credited | | 593 |
| Payments against bill instructions | 566 | 238 |
| Early payments on loans not yet due | 1,335 | 1,181 |
| Items being processed and in transit with branches | 155,684 | 77,382 |
| Currency differences on portfolio transactions | 133,852 | 76,401 |
| Due to personnel | 16,861 | 19,242 |
| Sundry creditors | 23,989 | 14,436 |
| Provisions for guarantees given and commitments | 1,785 | 1,857 |
| Accrued expenses | 9,365 | 2,626 |
| **Total** | **421,133** | **253,959** |

The figures in the table are shown net of Euro 1,412 thousand of liabilities pertaining to Rovere S.A., which have been reclassified to "Liabilities associated with assets held for sale" in accordance with IFRS 5.

"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 12,948 thousand (Euro 14,977 thousand last year).

The main items included under caption "Sundry creditors" refer to: sundry creditors arising from currency trading of Euro 4,484 thousand and creditors for bills paid of Euro 3,699 thousand. This caption also includes liabilities of Euro 2,349 thousand recognised for the *ex ante* contribution to the new Single Resolution Mechanism ("SRM contribution"), based on the provisions of Directive 2014/59/EU governing the new resolution rules applied from 1 January 2015 to all banks in the European Union. The Group has booked the charge for 2015 based on its own estimates and currently available information. Note that the amount that will actually be required could differ significantly from the liability that has been recognised; this is also because there are various different interpretations of the procedures for identifying and quantifying this item, which should be resolved by the authorities by the end of this year.

## Provisions for risks and charges - caption 120

**12.1 Provisions for risks and charges: breakdown**

| Items/Components | 30.06.2015 | 31.12.2014 |
|---|---|---|
| 1. Pensions and similar commitments | | |
| 2. Other provisions for risks and charges | 43,802 | 44,670 |
| *2.1 Legal disputes* | *21,527* | *19,597* |
| *2.2 Personnel expenses* | *17,229* | *18,839* |
| *2.3 Other* | *5,046* | *6,234* |
| **Total** | **43,802** | **44,670** |

Charges for "legal disputes" include provisions made in the year for expected losses of Euro 16,832 thousand, arising from legal disputes and of Euro 4,695 thousand from bankruptcy clawback actions.

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

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

In accordance with IAS 37, we would also point out that the interim consolidated financial report does not contain any provisions for obligations deemed possible for claims relating to the financial products of the Swiss subsidiary Credito Privato Commerciale SA in liquidation. The assessments carried out showed that resources are unlikely to be used to fulfil such obligations.

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

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

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **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 shares in the Parent Company Banco di Desio during the course of the period.

## Minority interests - caption 210

**16.1 Details of caption 210 "Minority interests"**

| Company name | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **Equity investments in consolidated companies with significant minority interests** | | |
| Rovere S.A. | 133 | 169 |
| Banca Popolare Spoleto S.p.A. | 51,237 | 53,911 |
| **Other equity investments** | 227 | 347 |
| **Total** | **51,597** | **54,427** |

# INCOME STATEMENT

## Section 1 - Interest - captions 10 and 20

**1.1 Interest and similar income: breakdown**

| Captions/Technical forms | Debt securities | Loans | Other transactions | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | 160 | | 287 | 447 | 318 |
| 2. Financial assets designated at fair value through profit and . | | | | | |
| 3. Financial assets available for sale | 8,694 | | | 8,694 | 10,673 |
| 4. Financial assets held to maturity | | | | | 619 |
| 5. Due from banks | 548 | 116 | | 664 | 1,195 |
| 6. Loans to customers | 58 | 180,859 | 69 | 180,986 | 142,556 |
| 7. Hedging derivatives | | | 685 | 685 | 1,393 |
| 8. Other assets | | | 34 | 34 | 2 |
| **Total** | **9,460** | **180,975** | **1,075** | **191,510** | **156,756** |

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 7,940 thousand.

Conversely, the caption includes default interest collected in the year of Euro 280 thousand, of which Euro 185 thousand relates to prior years.

**1.2 Interest and similar income: differentials on hedging transactions**

| Captions | 30.06.2015 | 30.06.2014 |
|---|---|---|
| A. Positive differentials on hedging transactions | 922 | 1,991 |
| B. Negative differentials on hedging transactions | (237) | (598) |
| **C. Balance (A-B)** | **685** | **1,393** |

**1.4 Interest and similar expense: breakdown**

| Captions/Technical forms | Payables | Securities | Other transactions | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|---|
| 1. Due to central banks | (449) | | | (449) | (482) |
| 2. Due to banks | (355) | | (27) | (382) | (198) |
| 3. Due to customers | (22,465) | | | (22,465) | (26,921) |
| 4. Debt securities in issue | | (30,050) | | (30,050) | (26,569) |
| 5. Financial liabilities held for trading | (17) | | | (17) | |
| 6. Financial liabilities designated at fair value through profit and loss | | (348) | | (348) | (450) |
| 7. Other liabilities and provisions | | | (2) | (2) | |
| 8. Hedging derivatives | | | (116) | (116) | |
| **Total** | **(23,286)** | **(30,398)** | **(145)** | **(53,829)** | **(54,620)** |

## Commission - captions 40 and 50

**2.1 Commission income: breakdown**

| Type of service/Amounts | 30.06.2015 | 30.06.2014 |
|---|---|---|
| a) guarantees given | 1,767 | 1,228 |
| b) credit derivatives | | |
| c) management, brokerage and consulting services: | 25,323 | 16,246 |
| 1. trading in financial instruments | | 7 |
| 2. trading in foreign exchange | 1,048 | 762 |
| 3. asset management | 2,687 | 1,309 |
| 3.1. individual | 2,448 | 1,045 |
| 3.2. collective | 239 | 264 |
| 4. custody and administration of securities | 983 | 797 |
| 5. custodian bank | | |
| 6. placement of securities | 9,453 | 3,999 |
| 7. order taking | 5,094 | 5,290 |
| 8. advisory services | | |
| 8.1 regarding investments | | |
| 8.2 regarding financial structuring | | |
| 9. distribution of third-party services | 6,058 | 4,082 |
| 9.1 asset management | 161 | 167 |
| 9.1.1. individual | 161 | 167 |
| 9.1.2. collective | | |
| 9.2 insurance products | 4,594 | 3,912 |
| 9.3 other products | 1,303 | 3 |
| d) collection and payment services | 15,063 | 10,916 |
| e) servicing related to securitisation | 41 | |
| f) services for factoring transactions | 79 | 83 |
| g) tax collection services | | |
| h) management of multilateral trading systems | | |
| i) maintenance and management of current accounts | 37,507 | 25,672 |
| j) other services | 11,538 | 9,945 |
| **Total** | **91,318** | **64,090** |

**2.2 Commission expense: breakdown**

| Services/Amounts | 30.06.2015 | 30.06.2014 |
|---|---|---|
| a) guarantees received | (183) | (22) |
| b) credit derivatives | | |
| c) management and brokerage services | (1,110) | (706) |
| 1. trading in financial instruments | (46) | (35) |
| 2. trading in foreign exchange | | |
| 3. asset management: | | |
| 3.1 own portfolio | | |
| 3.2 third-party portfolio | | |
| 4. custody and administration of securities | (700) | (671) |
| 5. placement of financial instruments | (364) | |
| 6. offer of securities, financial products and services through financial promoters | | |
| d) collection and payment services | (2,415) | (1,516) |
| e) other services | (7,425) | (6,081) |
| **Total** | **(11,133)** | **(8,325)** |

Other services mainly include Euro 6,675 thousand of commissions paid to financial advisors and intermediaries for services rendered.

## Dividends and similar income - caption 70

**3.1 Dividends and similar income: breakdown**

| Caption/Income | 30.06.2015 | | 30.06.2014 | |
|---|---|---|---|---|
| | Dividends | Income from UCITS units | Dividends | Income from UCITS units |
| A. Financial assets held for trading | | | | |
| B. Financial assets available for sale | 300 | | 88 | |
| C. Financial assets designated at fair value through profit and loss | | | | |
| D. Equity investments | | | | |
| **Total** | **300** | | **88** | |

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** | **2** | **521** | **(173)** | **(14)** | **336** |
| 1.1 Debt securities | 2 | 303 | (173) | (8) | 124 |
| 1.2 Equity instruments | | | | (4) | (4) |
| 1.3 UCITS units | | 16 | | | 16 |
| 1.4 Loans | | | | | |
| 1.5 Other | | 202 | | (2) | 200 |
| **2. Financial liabilities held for trading** | | | | | |
| 2.1 Debt securities | | | | | |
| 2.2 Payables | | | | | |
| 2.3 Other | | | | | |
| **3. Other financial assets and liabilities: exchange differences** | **x** | **x** | **x** | **x** | **1,907** |
| **4. Derivatives** | **531** | **475** | **(429)** | **(396)** | **1,289** |
| 4.1 Financial derivatives: | 531 | 475 | (429) | (396) | 1,289 |
| - On debt securities and interest rates | 531 | 472 | (424) | (396) | 183 |
| - On equities and equity indices | | 3 | (5) | | (2) |
| - On currency and gold | x | x | x | x | 1,108 |
| - Other | | | | | |
| 4.2 Credit derivatives | | | | | |
| **Total** | **533** | **996** | **(602)** | **(410)** | **3,532** |

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 | 30.06.2015 | 30.06.2014 |
|---|---|---|
| **A. Income relating to:** | | |
| A.1 Fair value hedges | 230 | 220 |
| A.2 Hedged financial assets (fair value) | | |
| A.3 Hedged financial liabilities (fair value) | 1,065 | 943 |
| A.4 Cash flow hedges | 37 | |
| A.5 Foreign currency assets and liabilities | | |
| **Total income from hedging activity (A)** | **1,332** | **1,163** |
| **B. Charges relating to:** | | |
| B.1 Fair value hedges | (1,365) | (1,448) |
| B.2 Hedged financial assets (fair value) | (1,539) | (706) |
| B.3 Hedged financial liabilities (fair value) | (21) | (91) |
| B.4 Cash flow hedges | | |
| B.5 Foreign currency assets and liabilities | | |
| **Total charges from hedging activity (B)** | **(2,925)** | **(2,245)** |
| **C. Net hedging gains (losses) (A-B)** | **(1,593)** | **(1,082)** |

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

## Gains (Losses) on disposal or repurchase - caption 100

**6.1 Gains (losses) on disposal or repurchase: breakdown**

| Caption/Income items | 30.06.2015 | | | 30.06.2014 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Net result | Gains | Losses | Net result |
| **Financial assets** | | | | | | |
| 1. Due from banks | | | | | | |
| 2. Loans to customers | 139 | (1,140) | (1,001) | 19 | (467) | (448) |
| 3. Financial assets available for sale | 14,229 | (429) | 13,800 | 35,470 | (3,226) | 32,244 |
| 3.1 Debt securities | 13,415 | (297) | 13,118 | 35,464 | (3,196) | 32,268 |
| 3.2 Equity instruments | 196 | | 196 | | | |
| 3.3 UCITS units | 618 | (132) | 486 | 6 | (30) | (24) |
| 3.4 Loans | | | | | | |
| 4. Financial assets held to maturity | | | | 12,428 | | 12,428 |
| **Total assets** | **14,368** | **(1,569)** | **12,799** | **47,917** | **(3,693)** | **44,224** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | | | | | | |
| 2. Due to customers | | | | | 1 | 1 |
| 3. Debt securities in issue | 36 | (2,647) | (2,611) | 21 | (1,341) | (1,320) |
| **Total liabilities** | **36** | **(2,647)** | **(2,611)** | **21** | **(1,340)** | **(1,319)** |

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

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

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

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

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

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

| Transactions/Income components | Capital gains (A) | Gains on disposal (B) | Capital losses (C) | Losses on disposal (D) | Net result [(A+B) – (C+D)] 30.06.2015 |
|---|---|---|---|---|---|
| **1. Financial assets** | | | | | |
| 1.1 Debt securities | | | | | |
| 1.2 Equity instruments | | | | | |
| 1.3 UCITS units | | | | | |
| 1.4 Loans | | | | | |
| **2. Financial liabilities** | **75** | **3** | | **(10)** | **68** |
| 2.1 Debt securities | 75 | 3 | | (10) | 68 |
| 2.2 Due to banks | | | | | |
| 2.3 Due to customers | | | | | |
| **3. Other financial assets and liabilities: exchange differences** | | | | | |
| **4. Derivatives** | **17** | **12** | **(218)** | | **(189)** |
| **Total** | **92** | **15** | **(218)** | **(10)** | **(121)** |

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) | | | | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Write-offs | Other | | A | B | A | B | | |
| A. Due from banks | | | | | | | | | |
| - Loans | | | | | | | | | |
| - Debt securities | | | | | | | | | |
| B. Loans to customers | | | | | | | | | |
| Impaired loans acquired | | | | | | | | | |
| - Loans | | | | | | | | | |
| - Debt securities | | | | | | | | | |
| Other receivables | | | | | | | | | |
| - Loans | (3,283) | (113,369) | (6,279) | 11,873 | 34,537 | | 612 | (75,909) | (56,259) |
| - Debt securities | | (704) | | | | | | (704) | |
| **C. Total** | **(3,283)** | **(114,073)** | **(6,279)** | **11,873** | **34,537** | | **612** | **(76,613)** | **(56,259)** |

Key:
A = Interest
B = Other write-backs

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

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

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

- Doubtful loans for Euro 53,845 thousand;
- "Unlikely to pay" loans for Euro 54,225 thousand;
- Past due loans for Euro 5,299 thousand.

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

The specific interest write-backs (A) relate to the discount interest on the capital element which is deemed to be recoverable on non-performing and "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) | | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|---|---|
| | Specific | | Specific | | | |
| | Write-offs | Other | A | B | | |
| A. Debt securities | | (126) | | | (126) | 215 |
| B. Equity instruments | | (7) | | | (7) | |
| C. UCITS units | | | | | | |
| D. Loans to banks | | | | | | |
| E. Loans to customers | | | | | | |
| **F. Total** | | **(133)** | | | **(133)** | **215** |

Key:

A = Interest

B = Other write-backs

**8.4 Net impairment adjustments to other financial assets: breakdown**

| Transactions/Income components | Write-downs (1) | | | Write-backs (2) | | | | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Write-offs | Other | | A | B | A | B | | |
| A. Guarantees given | | (149) | (182) | | 407 | | 2 | 78 | 652 |
| B. Credit derivatives | | | | | | | | | |
| C. Commitments to disburse funds | | | | | | | | | |
| D. Other transactions | | | | | | | | | |
| **E. Total** | | **(149)** | **(182)** | | **407** | | **2** | **78** | **652** |

Key:

A = Interest

B = Other write-backs

## Administrative expenses - caption 180

**11.1 Payroll costs: breakdown**

| Type of expense/Amounts | 30.06.2015 | 30.06.2014 |
|---|---|---|
| 1) Employees | (87,530) | (65,844) |
| a) Wages and salaries | (59,534) | (44,187) |
| b) Social security charges | (15,974) | (11,649) |
| c) Termination indemnities | | |
| d) Pension expenses | | |
| e) Provision for termination indemnities | (560) | (753) |
| f) Provision for post-retirement benefits and similar commitments: | (1,994) | |
| - defined contribution | (1,994) | |
| - defined benefit | | |
| g) Payments to external supplementary pension funds: | (4,122) | (4,083) |
| - defined contribution | (4,122) | (4,083) |
| - defined benefit | | |
| h) Equity-based payments | (105) | (194) |
| i) Other personnel benefits | (5,241) | (4,978) |
| 2) Other active employees | (388) | (276) |
| 3) Directors and auditors | (2,517) | (2,201) |
| 4) Retired personnel | | |
| **Total** | **(90,435)** | **(68,321)** |

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**

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| **1) Employees** | **2,430** | **1,743** |
| a) managers | 33 | 25 |
| b) middle managers | 1,101 | 884 |
| c) other employees | 1,296 | 834 |
| **2) Other personnel** | **6** | **4** |

**11.4 Other personnel benefits**

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| Provision for sundry charges | (2,744) | (2,258) |
| Contributions to healthcare fund | (954) | (772) |
| Training and instruction costs | 334 | (703) |
| Rent expense of property used by employees | (142) | (96) |
| Redundancy incentives | (154) | (131) |
| Other | (1,581) | (1,018) |
| **Total** | **(5,241)** | **(4,978)** |

Training and instruction costs include the operating grant awarded by the "FOR.TE" Fund in the first half of 2015: Euro 470 thousand to the Parent Company and Euro 250 thousand to Banca Popolare di Spoleto.

The main components of the "Other" caption include company canteen costs of Euro 1,128 thousand and costs relating to insurance premiums of Euro 101 thousand.

**11.5 Other administrative costs: breakdown**

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| Indirect taxes and duties: | | |
| - Stamp duty | (14,590) | (11,037) |
| - Other | (2,643) | (2,167) |
| Other costs: | | |
| - IT expenses | (7,140) | (5,662) |
| - Lease of property and other assets | (5,670) | (5,758) |
| - Maintenance of buildings, furniture and equipment | (1,811) | (1,941) |
| - Post office and telegraph | (1,566) | (1,103) |
| - Telephone and data transmission | (2,563) | (2,189) |
| - Electricity, heating, water | (2,362) | (1,784) |
| - Cleaning services | (787) | (499) |
| - Printed matter, stationery and consumables | (652) | (350) |
| - Transport costs | (607) | (491) |
| - Surveillance and security | (1,154) | (578) |
| - Advertising | (1,131) | (395) |
| - Information and surveys | (1,035) | (582) |
| - Insurance premiums | (880) | (383) |
| - Legal fees | (3,035) | (3,432) |
| - Professional consulting fees | (5,141) | (4,573) |
| - Various contributions and donations | (187) | (56) |
| - Sundry expenses | (5,394) | (3,062) |
| **Total** | **(58,348)** | **(46,042)** |

Sundry expenses include reimbursements to employees for travel expenses, mileage reimbursements for Euro 824 thousand, expenses for registration of a mortgage, injunctions and the assignment of loans for Euro 1,376 thousand, membership fees for Euro 805 thousand and subscriptions to newspapers and magazines for Euro 239 thousand.

## Net provisions for risks and charges - caption 190

### 12.1 Net provisions for risks and charges: breakdown

| | Provision | Utilisations | 30.06.2015 | 30.06.2014 |
|---|---|---|---|---|
| charges for legal disputes | (3,005) | 1,532 | (1,473) | 764 |
| other | (216) | 437 | 221 | (305) |
| **Total** | **(3,221)** | **1,969** | **(1,252)** | **459** |

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

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

## Net adjustments to property, plant and equipment - caption 200

### 13.1 Net adjustments to property, plant and equipment: breakdown

| Assets/Income items | Depreciation (a) | Impairment adjustments (b) | Write-backs (c) | Net result (a + b + c) 30.06.2015 |
|---|---|---|---|---|
| A. Property, plant and equipment | | | | |
| A.1 Owned | (4,039) | | | (4,039) |
| - for business purposes | (4,031) | | | (4,031) |
| - for investment purposes | (8) | | | (8) |
| A.2 Held under finance leases | | | | |
| - for business purposes | | | | |
| - for investment purposes | | | | |
| **Total** | **(4,039)** | | | **(4,039)** |

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) 30.06.2015 |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Owned | (652) | | | (652) |
| *- Generated internally* | | | | |
| *- Other* | *(652)* | | | *(652)* |
| A.2 Held under finance leases | | | | |
| **Total** | **(652)** | | | **(652)** |

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

## Other operating charges/income - caption 220

**15.1 Other operating charges: breakdown**

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| Amortisation of leasehold improvements | (1,300) | (1,105) |
| Losses on disposal of property, plant and equipment | (5) | (12) |
| Charges on non-banking services | (6,589) | (107) |
| **Total** | **(7,894)** | **(1,442)** |

Charges on non-banking services include charges for Euro 2,349 thousand relating to the estimate of the new SRM contribution based on the provisions of Directive 2014/59/EU, as mentioned in the "Balance Sheet - Other liabilities - Caption 100" section.

**15.2 Other operating income: breakdown**

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| Recovery of taxes from third parties | 15,705 | 12,095 |
| Recharge of costs of current accounts and deposits | 6,061 | 4,504 |
| Rental and leasing income | 24 | 25 |
| Other expense recoveries | 7,280 | 2,966 |
| Gains on disposal of property, plant and equipment | 63 | 1,979 |
| Other | 763 | 148 |
| **Total** | **29,896** | **21,717** |

"Recharge of costs" includes recoveries for rapid preliminary investigation fees of Euro 4,268 thousand and other recoveries for various communications to customers of Euro 1,693 thousand.

## Profit (loss) from equity investments - caption 240

**16.1 Profit (loss) from equity investments: breakdown**

| Income item/Amounts | 30.06.2015 | 30.06.2014 |
|---|---|---|
| **1) Companies subject to joint control** | | |
| A. Income | | |
| 1. Revaluations | | |
| 2. Gains on disposal | | |
| 3. Write-backs | | |
| 4. Other income | | |
| B. Losses | | |
| 1. Write-downs | | |
| 2. Impairment write-downs | | |
| 3. Losses on disposal | | |
| 4. Other charges | | |
| **Net result** | | |
| **2) Associates (subject to significant influence)** | | |
| A. Income | 1,557 | 557 |
| 1. Revaluations | 1,557 | 557 |
| 2. Gains on disposal | | |
| 3. Write-backs | | |
| 4. Other income | | |
| B. Losses | | |
| 1. Write-downs | | |
| 2. Impairment write-downs | | |
| 3. Losses on disposal | | |
| 4. Other charges | | |
| **Net result** | **1,557** | **557** |
| **Total** | **1,557** | **557** |

## Income taxes on current operations - caption 290

**20.1 Income taxes on current operations: breakdown**

| Income items/Amounts | 30.06.2015 | 30.06.2014 |
|---|---|---|
| 1. Current taxes (-) | (12,080) | (24,556) |
| 2. Change in prior period income taxes (+/-) | 229 | 4 |
| 3. Reduction in current taxes (+) | | |
| 3.*bis* Reduction in current taxes for tax credits under Law 214/2011 (+) | | |
| 4. Change in deferred tax assets (+/-) | 6,321 | 8,893 |
| 5. Change in deferred tax liabilities (+/-) | 1,561 | (1,909) |
| **6. Income taxes for the period (-) ( -1+/-2+3+3bis+/-4+/-5)** | **(3,969)** | **(17,568)** |

Caption 2. "Change in prior period income taxes" refers mainly to the reimbursement received by the Parent Company from the Tax Authorities in connection with a claim made in 2009 under Decree Law 185/2008 (the so-called "Anti-Crisis Decree") for a 10% flat-rate deduction of IRAP from taxable income for IRES purposes in 2004.

The change in deferred tax assets and liabilities, referred to in captions 4 and 5, includes the positive effects recorded by the Parent Company:

- Euro 628 thousand, due to net deferred tax assets recognised for IRAP purposes on the provisions for employee charges set aside in the financial statements for the years prior to 2015, as a result of the clarifications provided by the Tax Authorities in their Circular 22/E of 9 June 2015;
- Euro 1,256 thousand relating to the reversal of deferred tax liabilities and the recognition of deferred tax assets on the goodwill transferred for statutory purposes to Banca Popolare di Spoleto S.p.A.

## Earnings per share

| | 30.06.2015 | | 30.06.2014 | |
|---|---|---|---|---|
| | Ordinary shares | Savings shares | Ordinary shares | Savings shares |
| Net profit of the Group attributable to the various classes of shares (thousands of euro) | 16,813 | 1,897 | 27,949 | 3,154 |
| Average number of shares outstanding | 117,000,000 | 13,202,000 | 117,000,000 | 13,202,000 |
| Average number of potentially dilutive shares | - | - | - | - |
| Average number of diluted shares | 117,000,000 | 13,202,000 | 117,000,000 | 13,202,000 |
| **Earnings per share (Euro)** | 0.14 | 0.14 | 0.24 | 0.24 |
| **Diluted earnings per share (Euro)** | 0.14 | 0.14 | 0.24 | 0.24 |

# INFORMATION ON RISKS AND RELATED HEDGING POLICY

# PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

## Introduction

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

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

The organisational model adopted by the Group envisages that the Parent Company's Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, as envisaged 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), medium and large companies and customers in the financial sector, mainly include the following products: loans and deposits in any form; financial, banking and payment services; documentary credit; leasing and factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Group's branch network based on credit policies geared primarily to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the 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 by the competent corporate functions 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, watchlist loans e doubtful loans).

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

### *2.3 Credit risk mitigation techniques*

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

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

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

### *2.4. Impaired financial assets*

The Group has implemented the new definitions of impaired financial assets in order to bring them into line with the concepts of "Non-Performing Exposures" and "Forbearance", introduced by implementing technical standards concerning harmonized consolidated statistical supervisory reports defined by the European Banking Authority and approved by the European Commission on 9 January 2015.

In particular, the definitions introduced by the new legislation are as follows:

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

As part of the approach by transaction, if the exposure expired or overdrawn by more than 90 days is equal to or greater than 20% of all exposures to the same borrower, all cash and "off balance sheet" exposures to that borrower must be considered non-performing ("pulling effect").

Forborne exposures are individual exposures (approach by transaction) to a debtor, regardless of their classification as non-performing or performing, which would represent the subject of a "concession" (refinancing or modification of the contractual terms favourable for the debtor), if that concession 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 impaired loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

## Quantitative information

### Credit quality

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

| | Banking Group | | | | | Other businesses | | |
|---|---|---|---|---|---|---|---|---|
| Portfolio/Quality | Doubtful loans | Unlikely to pay | Non-performing past due and/or overdrawn exposures | Past due performing loans | Other assets | Non-performing | Other assets | Total |
| 1. Financial assets held for trading | | | 2 | 11 | 13,086 | | | 13,099 |
| 2. Financial assets available for sale | | | | | 1,610,235 | | | 1,610,235 |
| 3. Financial assets held to maturity | | | | | | | | |
| 4. Due from banks | | | | 95 | 195,955 | | | 196,050 |
| 5. Loans to customers | 436,277 | 395,554 | 42,897 | 474,931 | 8,151,227 | | | 9,500,886 |
| 6. Financial assets designated at fair value through profit and loss | | | | | | | | |
| 7. Financial assets being sold | | | | | 1,652 | | | 1,652 |
| 8. Hedging derivatives | | | | 6 | 9,447 | | | 9,453 |
| **Total 30.06.2015** | **436,277** | **395,554** | **42,899** | **475,043** | **9,981,602** | | | **11,331,375** |
| **Total 31.12.2014** | **426,631** | **383,069** | **44,266** | **482,597** | **10,462,822** | | | **11,799,385** |

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

| Portfolio/Quality | | Non-performing loans | | | Performing loans | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | | Gross exposure | Specific adjustments | Net exposure | Gross exposure | General portfolio adjustments | Net exposure | |
| **A. Banking group** | | | | | | | | |
| 1. Financial assets held for trading | | 2 | | 2 | | | 13,097 | 13,099 |
| 2. Financial assets available for sale | | | | | 1,610,235 | | 1,610,235 | 1,610,235 |
| 3. Financial assets held to maturity | | | | | | | | |
| 4. Due from banks | | | | | 196,050 | | 196,050 | 196,050 |
| 5. Loans to customers | | 1,356,553 | (481,825) | 874,728 | 8,689,107 | (62,949) | 8,626,158 | 9,500,886 |
| 6. Financial assets designated at fair value through profit and loss | | | | | | | | |
| 7. Financial assets being sold | | | | | 1,652 | | 1,652 | 1,652 |
| 8. Hedging derivatives | | | | | | | 9,453 | 9,453 |
| **Total A** | | **1,356,555** | **(481,825)** | **874,730** | **10,497,044** | **(62,949)** | **10,456,645** | **11,331,375** |
| **B. Other companies included in consolidation** | | | | | | | | |
| 1. Financial assets held for trading | | | | | | | | |
| 2. Financial assets available for sale | | | | | | | | |
| 3. Financial assets held to maturity | | | | | | | | |
| 4. Due from banks | | | | | | | | |
| 5. Loans to customers | | | | | | | | |
| 6. Financial assets designated at fair value through profit and loss | | | | | | | | |
| 7. Financial assets being sold | | | | | | | | |
| 8. Hedging derivatives | | | | | | | | |
| **Total B** | | | | | | | | |
| **Total** | **30.06.2015** | **1,356,555** | **(481,825)** | **874,730** | **10,497,044** | **(62,949)** | **10,456,645** | **11,331,375** |
| **Total** | **31.12.2014** | **1,244,446** | **(390,480)** | **853,966** | **10,977,276** | **(57,452)** | **10,945,418** | **11,799,384** |

At 30 June 2015 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 108,085 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 2015 amounted to Euro 269,857 thousand. This difference essentially represents the write-downs made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (the so-called "coverage ratio"), note that the total amount of gross non-performing loans at 30 June 2015 amounted to Euro 1,626.4 million and total write-downs to Euro 751.7 million (including BPS's non-performing loans and related write-downs).

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

| Exposures/Geographical areas | | Exposure subject to renegotiation under Collective Agreements | | | | | Other exposures | | | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Past due up to 3 months | Past due between 3 to 6 months | Past due between 6 to 12 months | Past due over 1 year | Not past due | Past due up to 3 months | Past due between 3 to 6 months | Past due between 6 to 12 months | Past due over 1 year | Not past due | |
| 1. Financial assets held for trading | | | | | | | 5 | | 6 | | 13,086 | 13,097 |
| 2. Financial assets available for sale | | | | | | | | | | | 1,610,235 | 1,610,235 |
| 3. Financial assets held to maturity | | | | | | | | | | | | |
| 4. Due from banks | | | | | | | 95 | | | | 195,955 | 196,050 |
| 5. Loans to customers | | 39,088 | 2,573 | 439 | | 286,780 | 363,483 | 40,346 | 8,264 | 20,738 | 7,864,447 | 8,626,158 |
| 6. Financial assets designated at fair value through profit and loss | | | | | | | | | | | | |
| 7. Financial assets being sold | | | | | | | | | | | 1,652 | 1,652 |
| 8. Hedging derivatives | | | | | | | | | | | 9,453 | 9,453 |
| **Total** | **30.06.2015** | 39,088 | 2,573 | 439 | | 286,780 | 363,583 | 40,346 | 8,270 | 20,738 | 9,694,828 | 10,456,645 |

As part of the portfolio of "Loans to customers", the performing exposures subject to renegotiation granted by the bank to customers in financial difficulty ("forborne loans") amounted to Euro 145,704 thousand; the breakdown by age of past due performing exposures is reported below:

| Portfolio/ Quality | Exposure subject to renegotiation granted to clients in financial difficulty | | | | | TOTAL (Net Exposure) |
|---|---|---|---|---|---|---|
| | Past due up to 3 months | Past due between 3 to 6 months | Past due between 6 to 12 months | Past due over 1 year | Not past due | |
| Loans to customers | 33.262 | 5.054 | 989 | 140 | 106.260 | 145.704 |
| **Total 30:06:2015** | **33.262** | **5.054** | **989** | **140** | **106.260** | **145.704** |
| **Total 31:12:2014** | **40.016** | **7.680** | **1.162** | | **37.737** | **86.595** |

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

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

| Types of exposure/amounts | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|
| **A. CASH EXPOSURES** | | | | |
| a) Doubtful loans | | | | |
| b) Unlikely to pay | | | | |
| c) Non-performing past due and/or overdrawn exposures | | | | |
| d) Other assets | 263,363 | | | 263,363 |
| **TOTAL A** | **263,363** | | | **263,363** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | |
| a) Non-performing | | | | |
| b) Other | 39,194 | | | 39,194 |
| **TOTAL B** | **39,194** | | | **39,194** |
| **TOTAL A+B** | **302,557** | | | **302,557** |

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

| Types of exposure/amounts | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|
| **A. CASH EXPOSURES** | | | | |
| a) Doubtful loans | 780,003 | 343,726 | | 436,277 |
| b) Unlikely to pay | 528,352 | 132,798 | | 395,554 |
| c) Non-performing past due and/or overdrawn exposures | 48,198 | 5,301 | | 42,897 |
| d) Other assets | 10,236,077 | | 62,949 | 10,173,128 |
| **TOTAL A** | **11,592,630** | **481,825** | **62,949** | **11,047,856** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | |
| a) Non-performing | 10,601 | 651 | | 9,950 |
| b) Other | 490,668 | | 1,135 | 489,533 |
| **TOTAL B** | **501,269** | **651** | **1,135** | **499,483** |
| **TOTAL A+B** | **12,093,899** | **482,476** | **64,084** | **11,547,339** |

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 2015; details are provided below:

a) Doubtful loans: Euro 217,574 thousand;
b) Unlikely to pay: Euro 52,208 thousand;
c) Non-performing past due and/or overdrawn exposures: Euro 75 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 30.06.2015 | Internal rating class | | | | |
|---|---|---|---|---|---|
| | from 1 to 4 | from 5 to 6 | from 7 to 10 | Financial and Institutional | Total |
| Cash exposures | 57.11% | 30.03% | 11.46% | 1.40% | 100% |
| Off-balance sheet exposures | 76.68% | 17.73% | 4.16% | 1.43% | 100% |

**Major risks**

With reference to current supervisory regulations, the situation at 30 June 2015 is reported below:

| *Description* | *Nominal amount* | *Weighted amount* | *Number of positions* |
|---|---|---|---|
| Major risks | 2,099,504 | 175,215 | 2 |

**Securitisation transactions**

The information in this section applies to transactions entered into by the subsidiary Banca Popolare di Spoleto SpA.

## Qualitative information

In 2001 and 2003, Banca Popolare di Spoleto has put in place the following securitisations as originator, in accordance with Law 130/99:

a) securitisation of non-performing loans, SPV: Ulisse 4 (operation closed in October 2013);
b) securitisation of performing loans, SPV: Spoleto Mortgages.

**Junior securities and subordinated loans**

***Spoleto Mortgages***

*1) Excess spread (Deferred Purchase Price)*
Amount at 30.6.2015: € 3,895 thousand

*2) Subordinated loan in current account*
Amount at 30.6.2015: fully collected

The values relating to the loan portfolio sold are reported below:
Original value of the loans sold: € 207,026 thousand
Immediate sale price: € 207,026 thousand
Original deferred price (excess spread): € 8,439 thousand
Gross value of loans sold at 31.12.2014: € 18,051 thousand

The subordinated loans to the SPV Spoleto Mortgages S.r.l. arose from the securitisation of performing loans started in 2003 and completed with retroactive effect, in 2004.

The securitisation was carried out in order to dynamically manage the activities and the necessary resources to continue to develop the long-term loan, in order to direct lending activities to specific production destinations.

As part of this transaction, Banca Popolare di Spoleto SpA (originator) has not signed junior securities, but has subordinated loans (Deferred Purchase Price), which will be refunded subject to the achievement by the vehicle company of a certain level of cash reserve in the order of priority provided for in the Regulation of the security. These loans are booked as loans to customers, being loans granted to the issuer (SPV).

As of 31.12.2014 the SPV has repaid 99.11% of the senior notes. The notes originally issued, and the amounts repaid from time to time, are summarised as follows:

Class A1: € 47,618 thousand - fully repaid
Class A2: € 144,920 thousand - fully repaid
Class B: € 7,246 thousand – leaving a balance of 6,491,546
Class C: € 7,246 thousand - all to be repaid

It should also be noted that, as part of this transaction, a back-to-back swap contract has been entered into, under which Banca Popolare di Spoleto SpA receives, on a quarterly basis, from a third party, the amount received by the SPV during the period as portions of interest on the mortgage loans sold and pays a floating rate + spread (paid by the counterparty to the SPV).

The excess spread (Deferred Purchase Price, the deferred portion of the sale price of the loans) is collected on the basis of the order of payment under the regulation of the securities and the achievement of a minimum threshold of liquidity by the SPV. An assessment of the recoverability of this loan is carried out periodically on the basis of a financial model for estimating expected cash flows.

It should be noted that, on 18 December 2014, the Board of Directors of Banca Popolare di Spoleto approved the early closure of the securitisation by exercising of the "clean-up option", that allows the originator bank to repurchase the portfolio of outstanding loans once this has been reduced to below 10% of the value of the original portfolio. It is therefore expected that the overall transaction will close in 2015.

**Servicing**

*Servicing performing loans*

As regards the securitisation of performing loans, Banca Popolare di Spoleto SpA has a servicing contract with the SPV Spoleto Mortgages for the portfolio sold to it. The main duties associated with this activity are the following:

- administration and management of collections and recoveries of loans sold to the SPV; initiation, management and continuation of court and bankruptcy proceedings in relation to loans that are not considered doubtful; performing any act, transaction or formalities for the management and administration of court and insolvency proceedings relating to any doubtful loans;
- maintaining a single electronic archive for the purpose of money laundering regulations, periodic reports to the Central Risk File and compliance with privacy legislation;
- safekeeping and updating of documents and periodic (monthly and quarterly) reporting on the activities carried out.

## 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 is parametric. This is the so-called variance-covariance approach, with delta-gamma type approximation for optional instruments, using a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee. The model covers the assets, in terms of financial instruments, included in both the management and trading portfolios, as defined in the rules governing supervisory reports and subject to the capital requirements for market risks.

The model uses matrices that contain the standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations. The application used to calculate the VaR is ALMpro, while the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.

To date, currency and interest rate derivatives and options on equities and indices entered into for trading purposes are excluded from the analysis; in any case, they are treated in the same way as brokerage. The VaR of equities is measured by taking into account the relationship (so-called "beta coefficient") that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).

Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.

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

**Quantitative information**

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

The monitoring of the "trading portfolio reported for supervisory purposes" in the first half of 2015 evidenced a structure with limited market risks. Related VaR at 30.06.2015 amounted to € 0.156 million, with a percentage of 5.88% of the trading portfolio. The scenario analyses carried out at 30.06.2015 in terms of parallel shifts in the yield curve - assuming variations of +/-100 basis points only for positions that are sensitive to interest rates and considering a positive change in interest rates - show a totally marginal negative impact of € 10 thousand.

## 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.

### 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. However, the distribution of financial statement items in terms of maturity and repricing date presents some peculiarities arising from the inclusion of Banca Popolare di Spoleto within the Group. In particular, for the latter, note that the inability - during the period of receivership - to issue new bonds, with a consequent increase in demand and short-term deposits, led to a physiological decrease in the average duration of the liabilities, whereas the assets did not undergo any substantial changes in terms of average duration with a share of fixed-rate components, made up of both government bonds and mortgages maturing in the medium/long term.

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 2015, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 30.06.2015

| | *+100 bps* | *-100* bps |
|---|---|---|
| *% of the expected margin* | *3.75%* | *-13.99%* |
| *% of net interest and other banking income* | *2.21%* | *-8.25%* |
| *% of the result of the year* | *19.86%* | *-74.18%* |
| *% of shareholders' equity* | *0.97%* | *-3.63%* |

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 2015 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 30.06.2015

| | *+100 bps* | *-100* bps |
|---|---|---|
| *% of the economic value* | *-1.98%* | *2.91%* |

### 1.2.3. EXCHANGE RISK

**<u>Qualitative information</u>**

**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.

The Group hedges exchange risk in order to protect the income statement from risks arising from adverse changes in exchange rates. To date, hedged instruments relate to assets through specific micro-hedges. For hedging, the Group uses derivatives represented by unlisted securities - flexible forwards - but only to hedge exchange 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

***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:

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

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

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

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

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

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

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 senior management with information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

With a view to better integration between the different control functions in the field of operational risk management and IT risk, the Bank purchased a defined integrated Governance Risk and Compliance (GRC) procedure, which is currently being set up.

In compliance with the Bank of Italy's provisions (former circular 263/06 section 8 and 9), Banco Desio set up the Security and ICT Governance Function and adopted the following procedures:

1. Security Management;
2. Accident Management;
3. IT Risk Assessment.

As regards the management of risks impacting Banco Desio'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 in Bologna (under construction), as an alternative to that for normal business operations, 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.

As regards BPS, activities were initiated to comply with the model of operational risk management adopted by the Parent Company. These activities will be completed during 2015.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", the Group has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned 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 | € 26.197 million |
| Provision | € 4.728 million |

OTHER LAWSUITS

| | |
|---|---|
| Number | 498 |
| Claim | € 130.627 million |
| Provision | € 12.739 million |

SIGNIFICANT LAWSUITS (CLAIMS HIGHER THAN € 1 MILLION)

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

- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by the Bank to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1,833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property. A hearing of the conclusions was held on 11.06.2015. The Judge reserved judgement. The case will therefore either go to a decision (and final judgement) or be resubmitted for further investigation;

- CLAIM € 1.150 million. The counterparty opposed our injunction with a simultaneous counterclaim. During the hearing, the court appointed expert witness declared that Banco di Desio e della Brianza S.p.A. had acted correctly. The judgement of the Court of First Instance, which went in favour of Banco di Desio e della Brianza S.p.A., was appealed against. The decision of the Court of Appeal was to reject the counterparty's appeal and to fully accept the motives submitted in defence of the Bank. However, Banco di Desio e della Brianza S.p.A. will continue to appear in court. At the hearing held on 27.05.2015, the judge set the deadlines for filing the concluding remarks and replies in accordance with art. 190 of the Code of Civil Procedure;

- 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 no. 1229/2015 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., in order to avoid notification of a payment injunction, paid the amount fixed by the judgement made by the Court of First Instance, comprising capital, interest and legal fees, subject to restitution based on the outcome of the appeal proceedings. With sentence no. 623/2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. The judgement was notified to the counterparty at the end of the time limit for any legal challenge, after which it becomes final;

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

- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who has produced drafts of the report: the papers filed by the expert witness are favourable to the Bank, which is waiting for a date to be set for the hearing at which the conclusions will be clarified;

- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who has produced drafts of the report: the papers filed by the expert witness are favourable to the Bank, which is waiting for a date to be set for the hearing at which the conclusions will be clarified;

- CLAIM € 10.000 million. The company opposed the aforementioned injunction by asking, in addition to the withdrawal of the injunction, for the payment by the Bank 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 was adjourned, with closing arguments to be presented at the hearing scheduled for 21/1/2016;

- CLAIM € 3 million: the receivership summoned Banca Popolare di Spoleto 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 next hearing is scheduled on 02/10/2015 for the debate;

- CLAIM € 1.933 million: the receivership summoned Banca Popolare di Spoleto 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. We are waiting for the date of the next hearing to be set;

- CLAIM € 4.7 million: the Receivership summoned Banca Popolare di Spoleto 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 appeared in court and disputed the legal standing of the Receiver and the total groundlessness of the an and the quantum. According to our consultant, there is no causal link between BPS's conduct and the company's bankruptcy;

- CLAIM € 1.461 million: with an appeal served on 19/12/13, a former employee appealed against the recess, answering and analysing in greater detail the individual complaints, the justifications previously provided, asking for Banca Popolare di Spoleto to be condemned to pay the salary disparity allegedly not paid, his re-employment or, in the alternative, an order to pay damages. The Bank appealed, arguing the legality of the dismissal which was for serious acts performed by the former employee. The next hearing is scheduled for 26/03/15 for investigative measures;

- CLAIM € 2.305 million. The receivership summoned BPS before the Court of Perugia for the hearing of 5/10/2015 seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) € 1.905 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; 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 € 1.526 million: By writ notified on 28/04/15, the counterparty summoned Banco di Desio e della Brianza before the Court of Prato for the hearing on 21 September 2015, where it was condemned, primarily, to refund the amount of the capital invested in a series of securities and, alternatively, the loss incurred during the course of the investment;

- CLAIM € 1.573 million: the receivership summoned Banca Popolare di Spoleto to obtain an ordinary revocation of two sale agreements of loans to the City of Umbertide. The two sales were notified two years before the bankruptcy; the Receivership would have to have proven that the Bank deliberately carried out an act detrimental to other creditors or that there was a *consilium fraudis* between the Bank and the borrower, but the judge rejected the preliminary motions of the Receivership and scheduled the hearing of the conclusions for 19/09/2015;

- CLAIM € 10.421 million: the extraordinary administration procedure of the counterpart has proposed action to set aside ex art. 67 of the Bankruptcy Law to obtain the restitution of € 10.412 million. The subject of the application is made by 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 Banca Popolare di Spoleto. These proceedings should be completed by 31/12/2016;

- CLAIM € 7.310 million: with a writ notified on 07/11/2013, the Receivership summoned Banca Popolare di Spoleto 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 21/03/2013), 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 € 1,000,000.00 for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. An examination of the statements of account shows the revolving nature of the loans granted, all drawn down by the customer. The documented loan constitutes the consideration for the sale. Basically, the syndicate of banks provided money, or funded the bankrupt company that was able to honour most of its contractual obligations towards the Civil Protection Department, consisting of works contracted out to it.

*TAX LITIGATION*

As regards tax litigation, there were no new disputes in the first half of 2015 and there were no developments with regard to those pending. The provision for risks and charges at 30 June 2015 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 the years 2010 and 2011 in relation to the "transfer pricing" issue, as mentioned in the notes to the financial statements at 31 December 2014.

*** * ***

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.

## Quantitative information

The number of detrimental events recorded by the Group in the course of the first half of 2015, comes to 664. 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 | 3 | 0,45% | 33 | 1,05% | 33 | 1,16% | 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 | 33 | 4,97% | 477 | 15,30% | 463 | 16,39% | 13 | 2,81% |
| 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 | 3 | 0,45% | 22 | 0,70% | 22 | 0,77% | 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) | 145 | 21,84% | 1.848 | 59,31% | 1.683 | 59,54% | 165 | 8,95% |
| DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank | 0 | 0,00% | 0 | 0,00% | 0 | 0,00% | 0 | 0,00% |
| BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections | 3 | 0,45% | 191 | 6,14% | 80 | 2,84% | 111 | 58,01% |
| EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT | 477 | 71,84% | 546 | 17,51% | 546 | 19,30% | 0 | 0,00% |
| **TOTAL Gruppo Banco Desio e della Brianza** | **664** | **100,00%** | **3.117** | **100,00%** | **2.827** | **100,00%** | **290** | **9,30%** |

The gross operating loss comes to € 3.11 million, for which prudent provisions were made during the year of € 2.171 million. Of the total gross loss, an amount was recovered of € 0.289 million, resulting in a net loss of € 2.82 million.

# INFORMATION ON THE CONSOLIDATED SHAREHOLDERS' EQUITY

Gruppo Banco Desio

## 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/Amounts | Banking Group | Insurance companies | Other businesses | Consolidation adjustments and eliminations | 30.06.2015 |
|---|---|---|---|---|---|
| 1. Share capital | 125,409 | | | | 125,409 |
| 2. Share premium reserve | 31,562 | | | | 31,562 |
| 3. Reserves | 706,438 | | | (920) | 705,518 |
| 4. Equity instruments | | | | | |
| 5. (Treasury shares) | (51) | | | | (51) |
| 6. Valuation reserves | 20,334 | | | 689 | 21,023 |
| - Financial assets available for sale | (14,558) | | | | (14,558) |
| - Property, plant and equipment | | | | | |
| - Intangible assets | | | | | |
| - Foreign investment hedges | | | | | |
| - Cash-flow hedges | 1,184 | | | | 1,184 |
| - Exchange differences | 13,036 | | | | 13,036 |
| - Non-current assets and disposal groups held for sale | | | | | |
| - Actuarial gains (losses) on defined-benefit pension plans | (2,224) | | | | (2,224) |
| - Portion of valuation reserves relating to investments carried at equity | | | | 689 | 689 |
| - Special revaluation laws | 22,896 | | | | 22,896 |
| 7. Net profit (loss) for the period | 18,401 | | | (33) | 18,368 |
| **Total** | **902,093** | | | **(264)** | **901,829** |

**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 | | 672 | (14,761) | | | | | | | 672 | (14,761) |
| 2. Equity instruments | | 397 | (159) | | | | | | | 397 | (159) |
| 3. UCITS units | | 982 | (1,364) | | | | | | | 982 | (1,364) |
| 4. Loans | | | | | | | | | | | |
| **Total** | **30.06.2015** | **2,051** | **(16,284)** | | | | | | | **2,051** | **(16,284)** |
| **Total** | **31.12.2014** | **4,351** | **(2,047)** | | | | | | | **4,351** | **(2,047)** |

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

As at 30 June 2015, Banco Desio Group's Own Funds consist of the following:

*(Amounts in thousands of Euro)*

| description | 30.06.2015 | 30.06.2014 |
|---|---|---|
| Common Equity Tier 1 (CET 1) | € 849,679 | € 729,695 |
| Additional Tier 1 capital (AT1) | € 11,498 | € 5,492 |
| Tier 2 capital (T2) | € 202,421 | € 33,077 |
| Total Own Funds | € 1,063,598 | € 831,264 |

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

### 1. Common Equity Tier 1 - CET 1

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

### 2. Additional Tier 1 - AT1

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

### 3. Tier 2 - T2

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

### B. Quantitative information

**Consolidated Own Funds** **(amounts in Euro thousands)**

| | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **A. Common Equity Tier 1 (CET1) prior to application of prudential filters** | 867.006 | 862.868 |
| of which: CET 1 capital instruments subject to transitional provisions | - | - |
| B. CET 1 prudential filters (+/-) | - 534 | - 2.108 |
| **C. CET1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)** | 866.472 | 860.760 |
| **D. Items to be deducted from CET1** | 25.202 | 29.459 |
| **E. Transitional provisions – Impact on CET1 (+/-)** | 8.409 | 933 |
| **F. Total Common Equity Tier 1 (CET1) (C – D +/-E)** | 849.679 | 832.234 |
| **G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions** | 13.888 | 14.174 |
| of which: AT1 capital instruments subject to transitional provisions | 6.865 | 6.865 |
| **H. Items to be deducted from AT1** | - | - |
| **I. Transitional provisions – Impact on AT1 (+/-)** | - 2.390 | - 1.373 |
| **L. Total Additional Tier 1 (AT1) (G - H +/- I)** | 11.498 | 12.801 |
| **M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions** | 202.421 | 142.099 |
| of which: T2 capital instruments subject to transitional provisions | - | - |
| **N. Items to be deducted from T2** | - | - |
| **O. Transitional provisions – Impact on T2 (+/-)** | - | 3.629 |
| **P. Total Tier 2 (T2) (M - N +/- O)** | 202.421 | 145.728 |
| **Q. Total Own Funds (F + L + P)** | 1.063.598 | 990.763 |

## 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 79.89% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 1.08% and 19.03%, 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 10.561%
- T1 /risk-weighted assets 10.704%
- Total Own Funds/risk-weighted assets 13.220%

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

## B. Quantitative information

**Consolidated capital adequacy ratios** **(amounts in Euro thousands)**

| Description/Amounts | Unweighted amounts | | Weighted amounts/Requirements | |
|---|---|---|---|---|
| | 30.06.2015 | 31.12.2014 | 30.06.2015 | 31.12.2014 |
| **A. ASSETS AT RISK** | | | | |
| **A.1 CREDIT AND COUNTERPARTY RISK** | **12.303.885** | **12.963.287** | **7.090.125** | **7.165.594** |
| *1. STANDARDISED METHODOLOGY* | 12.303.285 | 12.962.644 | 7.089.525 | 7.164.951 |
| *2. METHODOLOGY BASED ON INTERNAL RATINGS* | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| *3. SECURITISATIONS* | 599 | 643 | 599 | 643 |
| **B. CAPITAL ADEQUACY REQUIREMENTS** | | | | |
| **B.1 CREDIT AND COUNTERPARTY RISK** | | | **567.210** | **573.248** |
| **B.2 CREDIT VALUATION ADJUSTMENT RISK** | | | **107** | **947** |
| **B.3 SETTLEMENT RISK** | | | | |
| **B.4 MARKET RISKS** | | | **7.639** | **3.500** |
| *1. STANDARDISED METHODOLOGY* | | | 7.639 | 3.500 |
| *2. INTERNAL MODELS* | | | | |
| *3. CONCENTRATION RISK* | | | | |
| **B.5 OPERATIONAL RISK** | | | **68.680** | **68.680** |
| *1. BASIC APPROACH* | | | 68.680 | 68.680 |
| *2. STANDARDISED APPROACH* | | | | |
| *3. ADVANCED APPROACHES* | | | | |
| **B.6 OTHER ITEMS** | | | 0 | 0 |
| **B.7 TOTAL PRECAUTIONARY REQUIREMENTS** | | | **643.636** | **646.375** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | **8.045.448** | **8.079.684** |
| C.2 COMMON EQUITY TIER1 (CET 1/Risk-weighted assets) | | | 10,561% | 10,300% |
| C.3 TIER1 (T1/Risk-weighted assets) | | | 10,704% | 10,459% |
| C.4 TOTAL CAPITAL RATIO (Total Own Funds/Risk-weighted assets) | | | 13,220% | 12,262% |

# INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

***Information on the remuneration of directors and managers***

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA, 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 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" section.

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

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[2];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on any 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, other than the Bank's contribution to Banca Popolare di Spoleto of a business unit consisting of 32 branches (of which 11 branches in Tuscany and 21 branches in Lazio) and the simultaneous sale of Banca Popolare di Spoleto's only branch in Milan to the Bank. Transactions with the subsidiary are explained in the paragraph entitled "Significant events".

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 2015 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 2015 and, lastly, any relationships for the provision of services or of any other nature.

I - Parent company

[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)

At the end of the first half of 2015, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SApA at Banco Desio amounted to Euro 217.3 million, of which Euro 214.9 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, there is an investment in Istifid SpA, an associate, with a shareholding of 31.4% (as a result of the cancellation of treasury shares approved by the Extraordinary Shareholders' Meeting of the company held on 15 July 2015, this investment is due to rise to 35.9%). By virtue of that investment, the Bank is still the shareholder with a relative majority.

Banco Desio and Banca Popolare di Spoleto SpA's contractual relations with Istifid SpA essentially consisted of the provision of corporate services (keeping the shareholders' register, assistance at shareholders' meetings, advice on corporate compliance, etc.), charged at the usual cost for services of this kind. These services are now excluded from the scope of application of the rules on Related Party Transactions in consideration of the sale of the business unit that provides such services on 16 January 2015 to Computershare SpA.

With regard to the banking services provided by the Bank and Banca Popolare di Spoleto to Istifid SpA, at the end of the period, payables (to customers) amounted to Euro 89.1 million, of which Euro 63.6 million relating to securities portfolios; a credit line of Euro 3,000,000 has been given to the company.
Please note that the payable and receivable balances also refer to relationships maintained by Istifid SpA as part of fiduciary mandates granted by third parties.

There is also an investment in the associate Chiara Assicurazioni SpA, in which a 32.7% interest is held.
At the end of the half-year, payables (to customers) amounted to Euro 58 million, of which Euro 56.3 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.

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2015 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of Banco Desio 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 2015 amounted to approximately Euro 8.6 million. The related drawdowns amounted to a total of about Euro 6.1 million in loans to customers.

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

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 30 June 2015 amounted to Euro 161.6 million in amounts due to customers (including approximately Euro 134 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 *30.06.2015* (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 | **8.6** |
| Amount drawn down | **6.1** |
| **Funding transactions:** | |
| C/c and d/r amount (a) | **27.6** |
| Amount of securities portfolios (b) | **134** |
| Total (a+b) | **161.6** |

With reference to the Supplementary Pension Fund for the Employees of Banco Desio, at the end of the year, payable balances amounted to Euro 0.68 million. 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

**Stock grant plan for shares of the Parent Company**

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

# SEGMENT REPORTING

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

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

This chapter summarises the results of the Group's segments described below:

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

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 | 30.06.2015 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Net profit from financial and insurance activities (1) | 252,174 | 249,867 | 2,032 | 275 |
| Fixed costs (2) | (153,474) | (151,805) | (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 | 30.06.2015 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Financial assets | 1,697,839 | 1,697,839 | | |
| Due from banks | 196,050 | 146,812 | | 49,238 |
| Loans to customers | 9,500,866 | 9,500,876 | | (10) |
| Due to banks | 728,207 | 728,207 | | |
| Due to customers | 7,584,752 | 7,584,604 | | 148 |
| Debt securities in issue | 2,317,548 | 2,317,548 | | |
| **Indirect deposits, under administration and management** | 12,690,814 | 12,647,439 | 43,375 | |

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

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

| Balance sheet | 31.12.2014 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Financial assets | 1,896,686 | 1,896,686 | | |
| Due from banks | 288,282 | 242,034 | 1,823 | 44,425 |
| Loans to customers | 9,666,900 | 9,666,822 | | 78 |
| Due to banks | 1,017,467 | 1,017,467 | | |
| Due to customers | 7,444,025 | 7,443,858 | | 167 |
| Debt securities in issue | 2,798,752 | 2,798,752 | | |
| **Indirect deposits, under administration and management** | 12,559,667 | 12,514,813 | 44,854 | |

# Certification of the condensed interim financial statements pursuant to art. 81-ter of Consob Regulation 11971 of 14 May 1999

**CERTIFICATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION No. 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., taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998, do hereby certify to:

   - the adequacy in relation to the Company's features and
   - the actual application

   of the administrative and accounting procedures employed to draw up the condensed interim consolidated financial statements for the first half of 2015.

2. Evaluation of the adequacy of the administrative and accounting procedures used to draw up the condensed interim consolidated financial statements as at 30 June 2015 was based on methods defined by Banco di Desio e della Brianza S.p.A. consistent with the *Internal Control Integrated Framework* model, issued by the *Committee of Sponsoring Organisation of the Treadway Commission*, which is an internationally accepted reference framework.

3. The undersigned also certify that:

   3.1 The condensed interim consolidated financial statements:

   a. were prepared according to the applicable international accounting standards recognized in the European Union as per Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002;
   b. correspond to the results of the books and accounts;
   c. give a true and fair view of the equity, economic and financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2 The interim report on operations includes a reliable analysis of the references to the important events that occurred in the first six months of the financial year and their impact on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the financial year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

*Desio, 6 August 2015*

| Chief Executive Officer | Financial Reporting Manager |
|---|---|
| *Tommaso Cartone* | *Mauro Walter Colombo* |

# Auditors' report

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# REPORT ON REVIEW OF THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## Introduction

We have reviewed the accompanying half-year condensed consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco Desio Group"), which comprise the balance sheet as of June 30, 2015, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and the related explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information 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 half-year condensed 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 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 accompanying half-year condensed 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 7, 2015

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