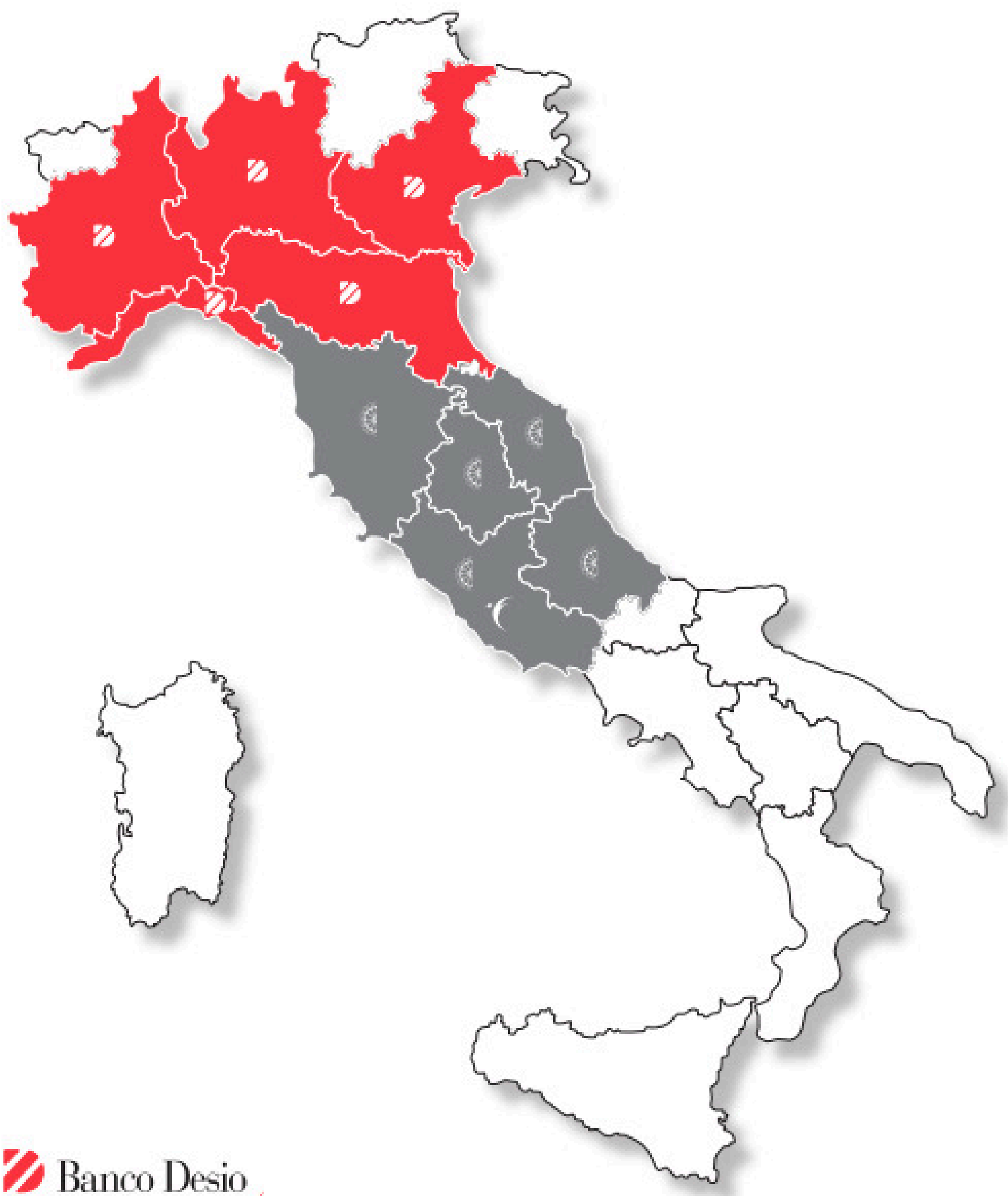
# Consolidated financial statements of the Banco Desio Group at 31 December 2015

# Financial statements of Banco di Desio e della Brianza S.p.A. at 31 December 2015

**Banco di Desio e della Brianza S.p.A.** - Share capital Euro 67,705,040.00 fully paid - Head office in Desio, via Rovagnati, 1

Registered in the Monza Brianza Companies Register - Tax Code 01181770155 - Member of the Interbank Deposit Protection Fund



Banco Desio

Banca Popolare di Spoleto

Fides

Gruppo Banco Desio

Banco Desio
Gruppo Banco Desio

Banca Popolare di Spoleto
Gruppo Banco Desio

Fides
Gruppo Banco Desio

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Gruppo Banco Desio

# Directors and officers

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

### Board of Directors

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

### Board of Statutory Auditors

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

### General Management

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

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

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

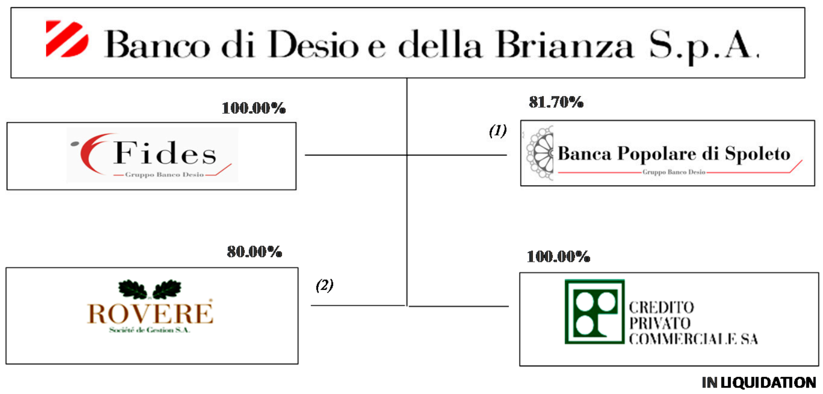
### Independent Auditors

Deloitte & Touche S.p.A.

* Members of the Executive Committee

# THE BANCO DESIO GROUP

The corporate structure of the Banco Desio Group at 31 December 2015, to which this Consolidated financial statements refer, is as follows:




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

# Consolidated Report on Operations

# INTRODUCTION

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

In view of the fact that Banca Popolare di Spoleto S.p.A. (BPS) entered the scope of consolidation with effect as from 1 August 2014, it should be noted that the figures in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated cash flow statement at 31 December 2015 are not comparable on a consistent basis with those for the same period last year because the latter include BPS's contribution for just five months.

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

# 1 - KEY FIGURES AND RATIOS

## BALANCE SHEET

*Amounts in thousands of Euro*

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Total assets | 12,248,130 | 12,563,670 | -315,540 | -2.5% |
| Financial assets | 1,901,770 | 1,905,058 | -3,288 | -0.2% |
| Due from banks | 292,992 | 288,282 | 4,710 | 1.6% |
| Loans to customers | 9,386,311 | 9,666,900 | -280,589 | -2.9% |
| *of which: Loans to ordinary customers* | *9,386,311* | *9,468,539* | *-82,228* | *-0.9%* |
| *of which: Loans to institutional customers* | | *198,361* | *-198,361* | *-100.0%* |
| Property, plant and equipment | 184,983 | 185,887 | -904 | -0.5% |
| Intangible assets | 18,207 | 18,384 | -177 | -1.0% |
| Due to banks | 753,115 | 1,017,467 | -264,352 | -26.0% |
| Due to customers | 8,244,110 | 7,444,025 | 800,085 | 10.7% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 1,940,932 | 2,822,378 | -881,446 | -31.2% |
| Shareholders' equity (including Net profit/loss for the period) *(1)(1)* | 870,449 | 845,627 | 24,822 | 2.9% |
| Own funds | 1,106,070 | 990,763 | 115,307 | 11.6% |
| Total indirect deposits | 12,310,102 | 12,559,667 | -249,565 | -2.0% |
| *of which: Indirect deposits from ordinary customers* | *8,343,925* | *8,694,528* | *-350,603* | *-4.0%* |
| *of which: Indirect deposits from institutional customers* | *3,966,177* | *3,865,139* | *101,038* | *2.6%* |

## INCOME STATEMENT (2)

*Amounts in thousands of Euro*

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Operating income | 470,789 | 431,808 | 38,981 | 9.0% |
| *of which: Net interest income* | *261,535* | *227,699* | *33,836* | *14.9%* |
| Operating costs | 278,561 | 243,176 | 35,385 | 14.6% |
| Result of operations | 192,228 | 188,632 | 3,596 | 1.9% |
| Net profit (loss) from operations after tax | 32,388 | 21,082 | 11,306 | 53.6% |
| Non-recurring profit (loss) after tax | 5,210 | 18,345 | -13,135 | -71.6% |
| Net profit for the period *(1)* | 38,172 | 40,601 | -2,429 | -6.0% |

(1) pertaining to the Parent Company;

(2) from the reclassified income statement.

## KEY FIGURES AND RATIOS

| | 31.12.2015 | 31.12.2014 | Change |
|---|---|---|---|
| | | | amount |
| Capital/Total assets | 7.1% | 6.7% | 0.4% |
| Capital/Loans to customers | 9.3% | 8.7% | 0.6% |
| Capital/Due to customers | 10.6% | 11.4% | -0.8% |
| Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 44.8% | 30.0% | 14.8% |
| Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) | 10.8% | 10.3% | 0.5% |
| Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) | 11.0% | 10.5% | 0.5% |
| Total Own Funds/Risk-weighted assets (Total capital ratio) | 13.9% | 12.3% | 1.6% |
| Financial assets/Total assets | 15.5% | 15.2% | 0.3% |
| Due from banks/Total assets | 2.4% | 2.3% | 0.1% |
| Loans to customers/Total assets | 76.6% | 76.9% | -0.3% |
| Loans to customers/Direct customer deposits | 92.2% | 94.2% | -2.0% |
| Due to banks/Total assets | 6.1% | 8.1% | -2.0% |
| Due to customers/Total assets | 67.3% | 59.3% | 8.0% |
| Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets | 15.8% | 22.5% | -6.7% |
| Direct customer deposits/Total assets | 83.2% | 81.7% | 1.5% |

| | 31.12.2015 | 31.12.2014 | Change |
|---|---|---|---|
| | | | amount |
| Cost/Income ratio | 59.2% | 56.3% | 2.9% |
| Net interest income/Operating income | 55.6% | 52.7% | 2.9% |
| Result of operations/Operating income | 40.8% | 43.7% | -2.9% |
| Net profit (loss) from operations after tax/Shareholders' equity *(3)* | 3.9% | 2.6% | 1.3% |
| Profit (loss) from operations after tax/Capital *(3)* (R.O.E.) | 4.6% | 5.0% | -0.4% |
| Profit (loss) from operations before tax/Total assets (ROA) | 0.3% | 0.3% | 0.0% |

| | 31.12.2015 | 31.12.2014 | Change |
|---|---|---|---|
| | | | amount |
| Doubtful loans/Loans to customers | 4.7% | 4.4% | 0.3% |
| Non-performing loans/Loans to customers | 9.6% | 8.8% | 0.8% |
| % coverage of doubtful loans | 58.5% | 58.5% | 0.0% |
| % Coverage of doubtful loans, gross of cancellations *(4)* | 64.2% | 65.2% | -1.0% |
| % Total coverage of non-performing loans *(4)* | 47.5% | 48.1% | -0.6% |
| % Coverage of non-performing loans, gross of cancellations *(4)* | 52.2% | 53.7% | -1.5% |
| % coverage of performing loans | 0.67% | 0.65% | 0.03% |

## STRUCTURE AND PRODUCTIVITY RATIOS

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Number of employees | 2,371 | 2,474 | -103 | -4.2% |
| Number of branches | 275 | 279 | -4 | -1.4% |
| | | | *Amounts in thousands of Euro* | |
| Loans and advances to customers per employee *(5)* | 3,875 | 3,907 | -32 | -0.8% |
| Direct deposits from customers per employee *(5)* | 4,204 | 4,150 | 54 | 1.3% |

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Operating income per employee *(5)* | 194 | 175 | 19 | 10.9% |
| Result of operations per employee *(5)* | 79 | 76 | 3 | 3.9% |

(3) equity excluding net profit (loss) for the period;
(4) also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., shown gross of write-downs;
(5) at 31.12.2015 based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period; at 31.12.2014 based on the number of employees at the year end, as the straight average is not significant following the inclusion of Banca Popolare di Spoleto S.p.A. in the Group with effect from 1 August 2014.

# 2 - UNDERLYING SCENARIO

## 2.1 - THE MACROECONOMIC SCENARIO

***International scenario***

The increase in reference rates in the United States in December 2015 marked the end of the era of zero interest rates, but it did not reduce the risks for the world economy. In fact, at the end of 2015, the world economic scenario was still influenced by two phenomena that have depressed the outlook for global economic growth: the slowdown in emerging countries, weighed down by the ongoing transformation of the Chinese economy and the lack of inflation in advanced economies, despite the huge monetary policy effort on the part of Central Banks. The weakness of the international economy is confirmed by the latest available data: in September, the monthly growth in world trade (+0.5%) was not enough to improve the annual comparison (-0.3%); and despite the monthly growth (+0.3%), industrial production in September posted an annual increase (+2.3%) a long way from the performance achieved in the same period of 2014 (+3.3%). Global inflation resumed the downward trend seen in the first half of the year, coming at 2.3% in October(-10 bps on a monthly basis).

An improvement in the terms of trade is bolstering household consumption in the USA and in the Eurozone; in the third quarter investments in both areas still went ahead with uncertainty, while exports were penalised by the weakness in world trade. Only imports maintained a certain vigour, fueled by the dynamism of household consumption.

The lows reached by commodity prices, on the other hand, are limiting the economies of emerging nations, in certain cases contributing to their stagnation (South Africa, Brazil, Russia). Moreover, China's difficulties have been confirmed, not so much in the GDP statistics, as in the contractions that are still affecting trade. For India, on the other hand, the low price of imported raw materials is helping to keep inflation in line with the objective of the central bank, which has repeatedly reduced its reference rates with expansionary effects on the economy.

With regard to the marked deterioration in oil fundamentals, the main causes are to be found in the output recorded in both OPEC and non-OPEC countries (mainly the United States), which was far higher than expected, and the thought that Iran could soon increase crude exports. In November, the price of oil stood at $ 45.9 per barrel (-43% y/y).

Overall, world GDP, which at the end of 2015 was expected to fall by 40 bps compared to the figure in 2014 (3.3%), is linked to the performance of emerging countries, whose average GDP is estimated to drop (-90 bps) on an annual basis. On the other side, the GDP of industrialised countries is expected to grow, with an increase of 30 bps compared with the figure recorded at the end of 2014 (+1.7%).

The reduction in raw material prices and the slowdown in international trade during 2015 triggered a sharp drop in the rate of inflation. Worldwide inflation went from 5.2% in 2011 to 2.3% in 2015. According to recent estimates by the International Monetary Fund, the advanced economies are very close to deflationary spirals: in the United States, inflation is expected to end 2015 at 0.1% (previously 3.1% in 2011), while in the Euro Area forecasts are 0.2% (previously 2.7% in 2011). Without "Quantitative Easing", the United States and Europe would have already been in deflation: at the same time, however, it is quite clear the extent to which this monetary stimulus - however impressive - has not been able to bridge the gap in low aggregate demand.

***United States***

In the third quarter of 2015 GDP recorded a lower quarterly variance than the previous quarter (2.1% versus 3.9%); the slowdown was largely determined by the negative contribution from inventories and exports, while consumption continued to support the economic cycle. In detail, consumption and investment have both increased by 0.8% (formerly +0.9% and +1.3%, respectively, in the previous quarter), exports by 0.2% (formerly +1.2%), while imports posted an increase of +0.5% (formerly +0.7%). The OECD's leading indicator signals that the prospects for the economy could remain uncertain for the next six months. By the end of 2015, the US GDP is expected to grow by +2.5%, an increase compared with year-end 2014 (+10 bps).

The labour market is continuing to gain ground: in fact, unemployment in the third quarter stood at 5.2% (6.1% in September 2014). In October the number of unemployed fell yet again (coming in at 5.0%), reaching the lowest level since 2008.

After the fall in the first half of the year (-0.9%), industrial production rebounded, in October turning in an increase compared to the same period of the previous year (+0.3%). Business confidence indicators have been showing different trends depending on the industry: the ISM (Institute of Supply Management) index of the manufacturing sector, after the sharp increase recorded in 2014, in October fell by almost 8 points, while the non-manufacturing ISM index rose by 2.5 points, albeit with various ups and downs.

The housing market continues to show signs of recovery, though less strong than in previous months. In parallel, housing prices have continued the rally that began in 2012: in the third quarter of 2015 the major market indices that track prices rose by +5% on an annual basis.

During the course of 2015, the consumer price index continued to fall, reaching 0.1% in October, the latest figure available (formerly 1.3% in the same period of the previous year). Core inflation, however, has gone up from 1.7% in January to 1.9% in October. The index of producer prices of industrial products fell sharply to hit a low in September (-6.5%) before rising in the October survey (-5.7%, formerly +0.6% in the same period of the previous year).

***Japan***

In the third quarter of 2015, the Japanese economy apparently relapsed into a technical recession (-0.8%, formerly -0.3% in the second quarter) due to the knock-on effect of an inventory adjustment (-1.9%). In October, however, industrial production started growing again (1.4% on a monthly basis); this trend would seem to indicate that the correction mentioned above will be partially reabsorbed. It is expected that this condition will allow GDP to start growing again.

Private consumption, after declining in the previous quarter (-0.7%), picked up in the third quarter, also because of low inflation (+0.3%) conditioned, in any case, above all by the trend in energy consumption (-11.8%). Due to the sharp drop in the production prices of goods and imports, the expansive monetary policies adopted by the Central Bank have not yet managed to eradicate the danger of deflation; even though monetary policy remained expansive in the entire second half of the year. Like other Asian countries, Japan has reduced the weighting of its foreign trade: both exports (-4.4%) and imports (-2.6%) decreased, with a negative contribution to GDP of -0.3%.

***Emerging countries***

The oil crisis is still conditioning the Russian economy: in the third quarter, GDP fell by 4.1% (-4.6% in June) because of difficulties in investment and private consumption. The confidence indicators suggest a prospective weakness for households and companies also based on end-2015 data. These trends are linked to the country's weaknesses, which have become well-established: the fall in real wages (-8.5% in the first half), which have absorbed the adjustment in the labour market and prevented a sharp rise in unemployment, has had negative consequences on consumption, exacerbated by the difficult credit conditions due to high interest rates and banks' aversion to risk. The trend in investment continues to be affected by financing conditions that are accompanied by increasingly weak demand, geopolitical uncertainty, the continuation of trade sanctions and low oil prices. The fall in demand has stimulated a major reduction in stocks (-38%). Monetary policy has slowed the expansion cycle because of persistent inflation; the recent resumption of the rouble's devaluation could lead to even greater prudence, while in providing support for the economy fiscal policy remains conditioned by the need to correct the budget deficit. Inflation in October stood at 12.9%. Overall, Russia is expected to remain in this recession for the whole of 2016 and there is a few to suggest for a more rapid recovery.

In the third quarter of 2015 China's GDP grew by 6.9% (7% in June). The OECD's leading indicator is expecting weak growth in the coming months as well. In fact, the main economic indicators are showing a constant weakening of the situation characterised by: lower growth in gross fixed investment in urban areas (less than 11%), a slowdown in industrial production (just over 6%) and in retail sales (just over 11%). Devaluation of the exchange rate does not seem to be affecting inflation, which remains low (1.6%), even in December. This situation triggered off a period of distinct instability in Asian stock markets that has continued into the first few weeks of 2016, contributing (along with the trend in oil prices) to the considerable volatility in financial markets. In order to counter the economic slowdown, the authorities are implementing a series of policies aimed at accelerating infrastructure investment, especially in the transport sector by promoting, on the one hand, administrative interventions aimed at facilitating the entry of new firms and public-private partnerships, while, on the other, acting on credit by injecting liquidity into the market, drawing on international reserves.

The economic data and the prospects of international trade suggest an outlook of very prudent growth in the Chinese economy towards the end of the year and in 2016, with the figures substantially constant (+6.1%), given that the phase of investment-led growth has reached limits of production capacity that are unlikely to be exceeded, while the debt situation now requires a period of adjustment for both the quantity and quality of the debt.

In *India*, GDP grew in the third quarter as well (+7.4%), an increase compared with the previous quarter's posting (+7%), thanks to the trend in consumer spending, which is still very robust, and a stronger investment dynamic which continues to be bolstered by the public sector. Monetary policy remains expansive, as confirmed by the 50 bps cut in the reference interest rate in September (to 6.75%, from 7.25%). The country still has issues concerning public finances, not so much tied to the amount of the overall deficit, but to the allocation of expenditure, the current component of which has increased to the detriment of capital investment. The international context of weaker demand and slow implementation of the reforms has lead to an assessment of future growth at the end of 2015 that is less dynamic than what was estimated in the second quarter. The most important risk relates to the instability of the financial and currency markets during this phase of abandoning zero interest rates in the United States, a risk that could lead to a credit squeeze and higher inflation in the country.

In *Brazil*, GDP in the third quarter of 2015 posted a further contraction of 4.4% (formerly -2.9% in June). Industrial production has been slowly declining since the beginning of the year and, net of seasonal factors, is showing an average annual negative change (-5.8%). The growth in the Brazilian economy is also being affected by political factors; on the one hand, the spreading Petrobras scandal is affecting the confidence of national and foreign operators, while, on the other, fragmentation of the government majority makes it harder to approve the structural reforms needed to break the deadlock in the country. Despite the slowdown, inflation in December was up (+5.6%) compared with the previous quarter (+5.4%). For Argentina and Venezuela, 2015 was a very difficult year: Argentina's presidential election left the economic context more or less in a state of stagnation; in Venezuela, the government's desire to focus on reducing its foreign debt limits the resources allocated in the country, with a subsequent deterioration in the socio-economic conditions of the population. The dependence of the Mexican economy on the United States will allow the country to benefit from the US recovery expected to take place in 2016; at the same time, overcoming the political uncertainty in Argentina will lay the foundation for reformist forces able to get the country on the move again. These trends will allow the entire area to counter the Brazilian recession which, in all probability, will continue in 2016.

***Europe***

The Eurozone economy continues its moderate rate of growth: in the third quarter of 2015, GDP grew (+1.2%) though this was slightly down on the previous quarter (+1.4%). The trend is linked to two factors above all: the resilience of the German economy (+0.3%), despite the deterioration in the economic indicators of the summer months and the Volkswagen affair, as well as the trend in sustained household consumption that is spreading to all countries in the area, fostered by an improvement in the terms of trade.

Starting in August last year, industrial production grew without a break until February 2015, subsequently falling slightly. In September, the Eurozone's industrial output posted a decline of 0.3% (formerly +0.4% in August), despite the growth in Germany (+0.2%) and France (+0.6%).

In September, new manufacturing orders showed an overall decline of 0.6% (formerly +3.4% in August).

They also fell in Germany by 0.6% (+2.0% in August). Retail sales in October recorded an increase (2.7%), mainly thanks to positive contributions by France (+3.6%) and Germany (+2.2%). In November, the index of business confidence deteriorated (-3.2, formerly -2.0) because of the negative signals coming from Germany (-3.2, formerly -2.3) and France (-6.4, formerly -3.2). The consumer confidence index, on the other hand, rose (-5.9, formerly -7.5), mainly thanks to the improvement in France (-11.9, formerly -16.7). The labour market is continuing to show signs of improvement: in October, unemployment fell to 10.7% (having been 10.8% in September). Inflation is still around an all-time low: in October, consumer prices rose by 0.1% after the low reached in January (-0.6%). The decline affected all of the main Eurozone countries. Core inflation, however, stood at 0.9%, up from 0.8% on the previous month. Overall, the improvement in the economic indicators strengthens the prospects for a recovery, enabling the Eurozone to close 2015 with GDP rising by +1.5% (+0.9% at the end of 2014). However, the weakness of the international environment will not allow further acceleration. Looking forward, the uncertainty caused by the fragility of emerging markets remains high, although the expected reduction in the price of oil in 2016 and Europe's still expansionary economic policy (fiscal and monetary, the latter characterized by reference rates still at the current minimum levels until the first quarter of 2018 and by further unconventional expansionary measures in the event of a risk of deflation) should enable the Eurozone's GDP to maintain an average annual growth rate similar to that of 2015 (+1.5%).

***Italy***

At the end of the third quarter of 2015, GDP grew by +0.2% over the previous quarter and +0.8% on an annual basis. Major contributions to total demand derived from domestic demand net of stocks (+0.2%), household consumption (+0.2%) and changes in inventories (+0.3%). On the other hand, the negative contributions to GDP growth have come from gross capital investment (-0.1%) and net foreign demand (-0.4%).

In October 2015, the seasonally adjusted industrial production index went up (+0.5% on a monthly basis): The indices adjusted for calendar effects show increases in capital goods (+4.8%), intermediate goods (+2.4%), consumer goods (+2.1%) and energy (+2.0%). In September, after the amazing result of July (+10.4%), new manufacturing orders dropped slightly (-0.8%). Retail sales, by contrast, have maintained the growth trend (+2.0%, formerly +2.6%).

In November, the household confidence index improved (-1.2 formerly -2 in October), while that of companies deteriorated (-1.1, formerly +0.5 in October). As regards the labour market, unemployment improved in October (11.5%, fomerly 11.6% in September) although youth unemployment got slightly worse (39.8%, 39.4% in September). The harmonised index of consumer prices rose in October (+0.3%, formerly+0.2% in September), similar to core inflation (+1.0%, formerly +0.8% in September).

## 2.2 - CAPITAL MARKETS AND THE BANKING SYSTEM IN ITALY

***Financial and monetary markets***

The European “reference rate” also remained the same in December (at 0.05%); The Federal Reserve, on the other hand, raised its benchmark rate for the first time since the start of the crisis (now in a range between 0.25% and 0.50%), suggesting that there will be further increases during the course of 2016.

In the first ten days of December, the 3-month Euribor was negative and at an all-time low (-0.12%); the 10-year IRS rate, on the other hand, was at 0.91%, 29 bps less than in June (1.20%).

On the bond market, 10-year benchmark rates rose in the USA (2.27%, formerly 2.16% in September) but fell slightly in the Eurozone; in Germany, the benchmark rate came to 0.55% (from 0.68% in September), while in Italy it was 1.58% (from 1.84% in September). The average spread in November between the yield on 10-year Italian and German government bonds was therefore on the decline, coming in at 103 bps (having been 116 in September).

At the end of 2015, international share prices were up, both on a monthly basis and on an annual basis. The Dow Jones Euro Stoxx index rose by +3.9% m/m (+9.7% y/y), the Standard & Poor’s 500 rose by +2.8% (+1.7% y/y) and the Nikkei 225 rose by +6.4% (+14% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by 0.3% (+14.3% y/y), in France the CAC40 rose by 4.1% (+15.2% y/y), while in Germany the DAX30 rose by 7.5% (+15.8% y/y).

With reference to the main banking indices, despite the monthly volatility, the indicators largely maintained the annual trend of the main stock prices: the Italian FTSE Banks declined by -2.8% m/m (+17.1% y/y), the Dow Jones Euro Stoxx Banks by -0.3% m/m (-0.1% y/y) and the S&P 500 Banks rose by +5.8% m/m (-3.8% y/y).

In early 2016, the markets experienced high volatility triggered off by the tensions between Iran and Saudi Arabia, and by concerns about growth in China.

***Banking markets***

At the end of 2015, after the recovery seen in October (+0.2%), the annual trend in deposits from resident customers turned negative again (-0.6% y/y). The trend in deposits continues to be positive (+3.7%), whereas bonds are showing a strong contraction (-12.9%). This trend is projected to get worse because of the events that are affecting the four banks saved from collapse. An analysis of the different components shows a clear gap between the short-term and medium/long-term sources. Deposits from resident customers (net of central counterparties) rose in December by +3.7% y/y, whereas bonds continued their sharp decline, already recorded in 2014. Foreign deposits also maintained their upward trend, as seen in previous postings (+3.1%, formerly +7.8% in September).

The average remuneration of bank deposits was 1.19%, decreasing again on the previous quarter (1.25%). The interest rate on euro deposits of households and non-financial companies came to 0.53% (0.55% at the end of the third quarter), while the rate on bonds came to 2.94% (formerly 3.02%) and 0.91% on repurchase agreements (0.96% in the previous quarter).

In December, bank loans to households and businesses improved (+0.1%, formerly 0.2% in September) with continuous signs of improvement month-on-month, although overall they maintained weak exit rates. In detail, this trend can be seen in total loans to residents in Italy (+0.1% y/y, formerly -0.1% in September), in loans to the private sector (-0.02% y/y, formerly -0.2%), as in loans to households and non-financial companies (+0.45% y/y, formerly -0.3%). In November, loans to households grew by 0.8% y/y (former +0.3% in September), as did those to companies (-0.2%, formerly +0.8%). Breaking down loans by duration, the medium/long-term component posted an annual increase already started in September (+2.2%, formerly +1.4%), whereas the short-term one remains negative but getting better (-4.8% y/y, - 5.5% in September).

Overall, lending during the fourth quarter of 2015 was influenced by the trend in capital investment and the weak economic cycle; in November, gross doubtful loans grew by 11% y/y (formerly +13.3% in September), with a percentage of total loans of +10.4% (formerly +10.5% in September). The ratio of net doubtful loans/total net loans comes to 4.89% (formerly 4.84% in September).

The latest CERVED data available (June 2015) show that businesses that have opened bankruptcy proceedings have decreased by 6.8% y/y, thanks to general improvements in our country, especially in the industrial sector.

Interest rates on new loans have remained low; the rate on home purchase loans to families came to 2.51% (2.66% in September). In November, the share of the flow of fixed-rate loans was 66.0% (formerly 64.9% in September). The rate on new loans to non-financial companies fell to 1.99% (formerly 2.05% in September). Overall, the weighted average interest rate on total loans to households and non-financial companies in December came to 3.26% (formerly 3.34% in September), a new all-time low recorded in 2015. In December, the spread between the average rates on loans and deposits amounted to 2.07%, a slight decrease on the previous postings (formerly 2.09% at the end of the previous quarter), but still far from the pre-crisis value (3.29% at the end of 2007).

# 3 – REGIONAL MARKET PRESENCE AND CORPORATE ISSUES

## 3.1 - THE DISTRIBUTION NETWORK

The Group's distribution network at 31 December 2015 consists of 275 branches, of which 149 of Banco di Desio e della Brianza S.p.A. and 126 of Banca Popolare di Spoleto S.p.A.

As detailed in the paragraph below on *"Significant events"*, effective for legal purposes as of 1 April 2015, the Parent Company contributed to its subsidiary a business unit consisting of 32 branches, of which 11 branches are located in Tuscany and 21 are located in Lazio; at the same time as this contribution, the 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, Piedmont, Liguria, Veneto, Tuscany and Lazio and now, thanks to Banca Popolare di Spoleto, into Umbria, Marche and Abruzzo as well.

During the year, it has been completed the renovation project of the distribution network of the parent company, foreseeing the strengthening of the regional offices with structured development and coordinated action as provided by Corporate Affairs Departement. This project consisted of the organisation of the distribution network into seven regional Areas, each of which is supervised by an Area Manager and for which it is envisaged that each Area will be assigned the following roles to support its Area Manager:

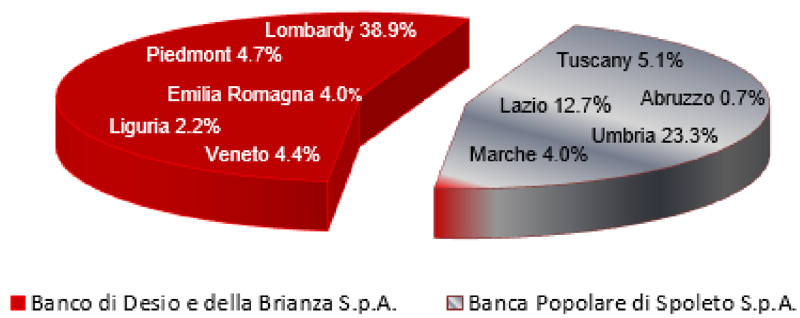
- *Area Credit Manager and Loan Officer*, who provides support for the granting and management of credit and who intervenes in the credit granting process and in the monitoring of credit quality at aggregate level;
- *Area Sales Manager*, who intervenes in the coordination of sales development, by applying both the policy issued by the office of Corporate Affairs and the indicators 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 Group continued strengthening its online product offering also in 2015, both in terms of new features and interest on the part of customers, who now carry out almost 50% of transactions through on-line platforms.

As part of the rationalisation of the distribution network, in September, Banca Popolare di Spoleto S.p.A. closed four branches, in Viterbo, Civitavecchia, Rome and Terni.

The following chart gives a breakdown of the overall distribution network by Group company with the percentage represented by the region at the end of 2015.

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




## 3.2 - SIGNIFICANT EVENTS

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

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

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 non-performing loans (doubtful and unlikely to pay 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 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 more integrated model, 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 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 allowed BPS to strengthen its role in "Central Italy", particularly in Tuscany and in Lazio (14 and 35 branches respectively). This should result in benefits, mainly in terms of efficiency and profitability, cost synergies and simplification, taking into account the extent to which the existing networks of Banco Desio and of BPS are complementary The Contribution took place under the terms of a deed executed on 31 March 2015, effective for legal purposes as of 1 April 2015. In this regard, notification has been published in the Official Gazette pursuant to art. 58 of the CBA (also available on the websites of the Parent Company and of BPS).

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

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

For the purposes of the Contribution, the same Extraordinary Shareholders' Meeting approved, effective as of 1 April 2015, the proposed increase in capital with exclusion of option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, reserved for Banco Desio for a total of Euro 90,628,000 (the "Capital Increase to Service the Contribution"), by issuing a total of 50,015,453 newly issued ordinary shares to be paid by means of the Contribution. In determining the terms and conditions of the Contribution, the Parent Company and BPS adopted appropriate procedures aimed at safeguarding the interests of the respective shareholders. 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 held no. 128,240,177 BPS ordinary shares, equal to 81,71% of the share capital. At 31 December 2015, 16.905 Warrants have been converted and as many shares subscribed. The share capital has increased to a total of Euro 314,995,272.70 corresponding to no. 156,960,843 Shares. The share held by Banco Desio remained more or less unchanged at 81.70%. 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 to them, this holding could decrease to 76,31% by 30 June 2017.

The Purchase/Sale of the Branch took effect as of 1 April 2015 upon a cash payment by Banco Desio of the consideration of Euro 448.000. The value of the Branch was determined by Professor Mario Massari on the basis of its net asset value at 30 September 2014, applying the same criteria adopted for the valuation of the Business Unit.

For the accounting treatment of the two extraordinary transactions which involved entities controlled by a common shareholder (operations that are not specifically regulated by IAS/IFRS), reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements".

In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

The Contribution and the Purchase/Sale of the Branch, jointly considered, are deemed to be "significant" intercompany transactions in accordance with legislation governing related party transactions. In accordance with this legislation, on 24 December 2014, BPS made available to the public an information document (available on BPS's website). On 13 March 2015, BPS also made available to the public an additional Information Document relating to the aforementioned transactions, given that they were deemed to be "significant" pursuant to Consob's Issuers' Regulations (available on BPS's website).

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

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

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

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

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

On 20 April 2015, having taken note of this judgement of the Council of State, the Ministry of Economy and Finance 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 Ministry of Economy and Finance with respect to the Bank of Italy's proposal.

As of 24 June 2015, at the request of certain former directors of BPS who had already filed an appeal against the MEF decree, the former General Manager and some members of the Issuer, and certain former directors of Spoleto Crediti e Servizi Soc. Coop., several appeals were notified to the Issuer, in its capacity as defendant, by them against the Bank of Italy and the MEF before the Lazio Regional Administrative Tribunal (TAR) to appeal against the decree of 20 April 2015, and before the Council of State for a compliance judgement with regard to that sentence. The hearing took place on 1 December 2015 before the Council of State, whose decision is pending.

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

***Financial Reporting Manager***

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

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

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

- Directive 2014/59/EU (the so-called *Bank Recovery and Resolution Directive* or BRRD) defines the new resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by ex ante contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called **Deposit Guarantee Schemes Directive** or DGSD) provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of "ex-ante" funding to reach the target level of 0,8% of guaranteed deposits by 2024.

The contributions were communicated by the competent authorities (the Bank of Italy as the resolution authority and the FITD as the authority for the protection of guaranteed deposits) in November. The economic impact of these contributions, before the related tax effects, by Banco Desio and Banca Popolare di Spoleto amounted to 12,8 million euro, made up as follows:

- Euro 2.8 million for the "ex-ante" ordinary contribution to the Single Resolution Mechanism (SRM) for 2015;
- Euro 8.4 million for the extraordinary contribution to the SRM as a result of the resolution measures taken by the Bank of Italy after approval of Legislative Decree 180/2015 by the Government;
- Euro 1.6 million for the *ex-ante* ordinary contribution to the Deposit Guarantee Scheme (DGS) for 2015.

***Contribution to the solidarity fund***

The 2016 Stability Law provides for the establishment of a solidarity fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara.

The Solidarity Fund is financed on the basis of the financial needs related to the services performed by the Interbank Deposit Protection Fund (IDPF) up to a maximum of Euro 100 million. Pending definition of the organisational and operational aspects of the system with the enactment of special ministerial decrees, the Banco Desio Group considered the probability of enforcement to be high (more likely than no") and has therefore made a risk provision for a probable liability (as defined by IAS 37) of Euro 790 thousand in total for Banco Desio and Banca Popolare di Spoleto.

***Credito Privato Commerciale S.A. in liquidation***

The liquidation process of the Swiss subsidiary CPC is substantially completed:

– on 23 September 2015, upon completion of the other liquidation activities being carried out, considering the small number of relationships remaining in place, the subsidiary's Board of Directors decided to keep the books in Euro from 1 October 2015, as well as to prepare the accounts in Euro (with an indication of the corresponding amounts in Swiss Francs as required by applicable law).
– on 1 October 2015, the Extraordinary Meeting of CPC resolved, with the approval of FINMA, the amendments to its articles of association required to stop the company being subject to banking legislation and therefore to supervision by FINMA, after giving up its banking and "securities dealing" licence (completing the statutory process required for these changes at the Commercial Register);
– when approving the financial statements for the period ended 30 September 2015, the liquidators issued their report on 2015, which confirmed that the liquidation process had been substantially completed;
– on 7 December 2015, the auditing firm PwC issued the following reports, which are also needed for FINMA to complete the above process:
    - Auditors' report to the Shareholders' Meeting on the liquidation's interim financial statements at 30.09.2015
    - Auditors' full report on the liquidation's interim financial statements at 30.09.2015
    - opinion on the licence withdrawal procedure

This last document, as supplemented by a subsequent letter dated 14 December 2015, contains, among other things, an opinion on the so-called "escrow account" which, again in order to speed up closure of the liquidation process, was set up as a mechanism to protect the interests of the remaining third parties and worthy of protection under banking legislation, for an amount of Swiss Francs 0.9 million plus Euro 2,3 million.

The Bank has therefore revised the time and cost to formalise the company's radiation.

The change in functional currency therefore took place on substantial completion of the company's liquidation. Following this change, the valuation of the Parent Company's investment in CPC at the exchange rate ruling on 1 October 2015 resulted in the recognition of a gain in the consolidation of approximately Euro 12.3 million.

Since 1 October 2015 the Parent Company's stake was held in Euro and no longer in Swiss Francs, for a carrying amount of Euro 45.8 million (the book value translated at the exchange rate on 1 October 2015).

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

In January 2015, as a result of the decision by the Swiss National Bank to abandon the Swiss Franc's minimum exchange rate against the Euro, which had been set at 1.20 since September 2011, the Parent Company entered into two flexible forward transactions for a total of 40 million Swiss Francs against the Euro with an 18-month maturity to hedge the exchange risk on its investment in Credito Privato Commerciale SA in liquidation. In June, the Parent Company completed another deal for 10 million Swiss francs against the euro expiring in December 2015. The three transactions were closed in advance on 1 October 2015, together with the change in functional currency for keeping the books of the Swiss subsidiary Credito Privato Commerciale S.A. in Euro (as mentioned above), which took place after substantial completion of the liquidation. The effects of closure of these transactions are included in the gain of around 12.3 million euro mentioned previously.

***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, on 29 January 2016 Rovere S.d.G. and Rovere Sicav have carried out negotiations to merge the nine sub-funds managed by Rovere Sicav with those managed by AcomeA SGR (after completing the statutory and supervisory procedures required by the respective legal systems).

Following this merger, Rovere SdG will be sold or put into liquidation in the relatively near future.

***Istifid S.p.A.***

During the first few months of the year, Istifid S.p.A. completed the sale of the business unit that provided corporate services (keeping of shareholders' registers, assistance during shareholders' meetings, consulting on corporate compliance, etc.) to an operator that specialises in this specific segment.

On 11 January 2016, given the evolutions in the sector where the company operates, characterised by increasing concentration, the Parent Company's Board of Directors agreed to continue negotiations to sell its investment in this product company.

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

A general inspection of Banco Desio began on 14 September 2015. The inspection activities was completed on 24 December 2015, but the results still have to be communicated.

***Fides S.p.A.***

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

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

On 12 October 2015, the Tax Authorities began an external investigation concerning tax years 2015 and 2013 at the subsidiary Banca Popolare di Spoleto S.p.A. on Direct and Indirect Taxes in order to complete the checks required by D.L. no. 185/2008, converted into Law no. 2/2009 (so-called “Tutoring of large tax payers”).

On 10 December 2015, at the end of the investigation, the report on findings was notified to the Bank and accepted by the subsidiary, which meant being able to pay a reduced fine of Euro 42 thousand.

***Registration document of the subsidiary Banca Popolare di Spoleto S.p.A.***

Banca Popolare di Spoleto S.p.A.’s procedures to obtain approval from Consob of the Registration Document are underway. This document is necessary for the listing of financial instruments issued by the subsidiary (including readmission to listing of the shares that were suspended, without prejudice to the right to check the free float to ensure regular trading in the shares). These procedures will be completed after approval of the financial statements by the Shareholders’ Meeting of the subsidiary.

***Assignment of non-performing loans***

During the year, Banca Popolare di Spoleto S.p.A. assigned Euro 109.1 million of non-performing loans that had been written down by more than 95%.

***Early closing of the Spoleto Mortgages 2003 securitisation of loans***

On 14 December 2015, the Board of Directors of Banca Popolare di Spoleto S.p.A. approved the closure of the securitisation of performing loans through the SPV “Spoleto Mortgages Srl”.

The preliminary activities required to close this transaction were carried out during the year, which included granting to the Representative of the Noteholders (RON) a surety with which the subsidiary agreed to indemnify the Representative against any damages, losses and costs arising from actions, complaints or requests received after the signing of the letter of consent to the loan retrocession contract. Having obtained the assent of the RON on 23 December 2015 and in accordance with the period of 60 days prior to the closing, a “Notice of early redemption of the Notes and termination of the related Transaction Documents” was then published in which information was given on the early closure of the transaction and repayment of the outstanding securities at par value. Closure will take place on 25.2.2016, the payment date.

The decision to proceed to early closure of the transaction is attributable to criteria of cost effectiveness, given the residual value of the loans. By the end of the first quarter of 2016, once the early closure has been completed, the remaining loans will be returned to the books of Banca Popolare di Spoleto.

# 4 - 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 for the month of May the closure of four branches, in Sferracavallo, near Orvieto (TR), San Secondo, fraction of di Città di Castello (PG), Cerreto di Spoleto (PG) and Recanati (MC) by next May.

# 5 - LEGISLATIVE DECREE 231/2001

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

As regards the subsidiary Banca Popolare di Spoleto S.p.A., note that its Model 231 has been aligned to that of the Parent Company.

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

Model 231, together with the Code of Ethics, has been published on the Group's website.

# 6 - HUMAN RESOURCES

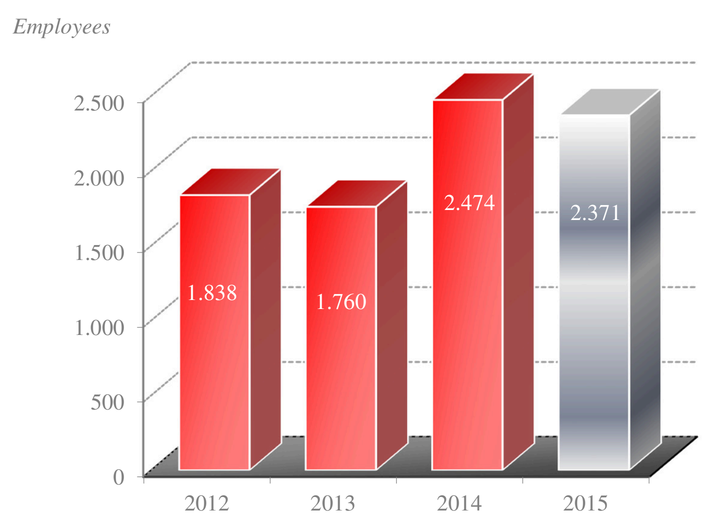
## 6.1 - MANAGEMENT AND BREAKDOWN OF RESOURCES

At 31 December 2015, the Group had 2,371 employees, 103 fewer (-4.2%) than at the end of the previous year.

This is partly due to the number of Parent Company employees that took advantage of the “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 graph below.

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



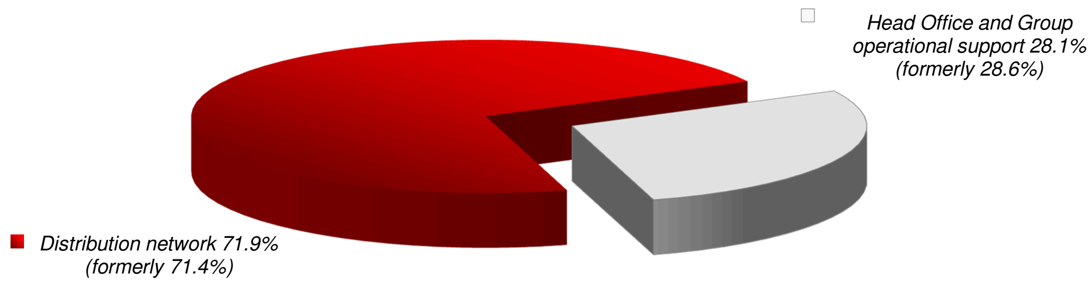

The following table provides a breakdown of employees by level at the end of 2015, compared with 2014.

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

| No. of Employees | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Managers | 36 | 1.5% | 37 | 1.5% | -1 | -2.7% |
| 3rd and 4th level middle managers | 473 | 20.0% | 515 | 20.8% | -42 | -8.2% |
| 1st and 2nd level middle managers | 608 | 25.6% | 608 | 24.6% | 0 | 0.0% |
| Other personnel | 1,254 | 52.9% | 1,314 | 53.1% | -60 | -4.6% |
| **Group employees** | **2,371** | **100.0%** | **2,474** | **100.0%** | **-103** | **-4.2%** |

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

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




## 6.2 - TRAINING

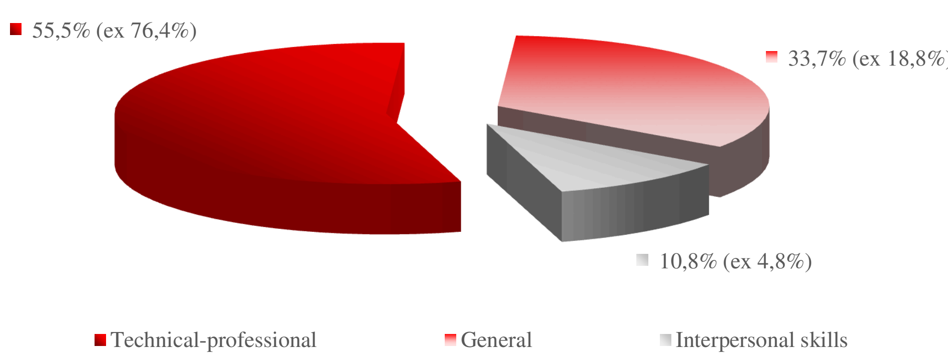
As regards training activities, which accompany processes of growth and development of resources, in compliance with Group guidelines and procedures, 16,098 man days of training were provided during the year, inclusive of internal courses, conferences, external seminars and online training activities that correspond to an average of 6.6 days of training for each employee.

The type of training offered can be summarised as follows:

- "General": courses catering for all professional groups with the objective of developing transverse knowledge;
- "Technical-professional": comprises courses aimed at the development of technical skills of resources that have commenced the performance of specific duties and are interested in consolidating and further improving the skills required by the role;
- "Interpersonal Skills": these courses are aimed at the development of behavioural skills and facilitate the spread of corporate culture as well as the internalisation of corporate values.

The following graph shows the breakdown in percentage terms of training days that were held in the year by type of course.

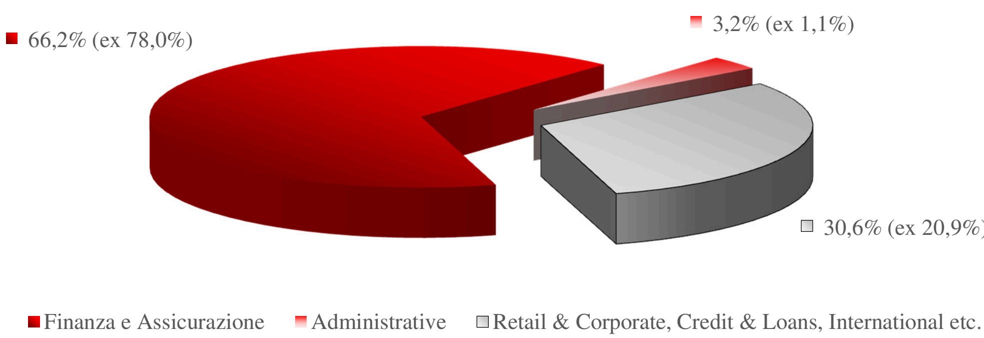
**Graph no. 4 - BREAKDOWN OF TRAINING DAYS IN 2015 BY TYPE OF TRAINING OFFERED**



As part of the general training and with the aim of continuously updating the staff's knowledge of legal requirements, around 5,400 man/days were delivered through specific refresher modules on issues such as the Model 231, Anti-Money Laundering, Transparency, Safety at Work and Control Culture.

As regards "Technical-professional" training, the breakdown in percentage terms of the topics covered by the courses held is shown below.

**Graph no. 5 - BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2015 BY TOPIC**




We have held training activities within the Finance Area to support the release of the new customer profiling questionnaire and the new advisory model introduced in January 2016, the AIPB (Italian Private Banking Association) certification course for new private bankers and for the maintenance of those already certified, as well as for specific activities for the commercial planning of the managed portfolio.

Continuing what we started last year, we continued the modular course with periods of on-the-job training to improve our credit risk selection and monitoring skills. This was accompanied by training sessions following the release of the new "Credit Rating System" (CRS) and the new "Credit Origination" procedure, as well as a refresher course on the development of methodologies for assessing credit exposures (AQR - Asset Quality Review), which is also being looked into during 2016.

This area also includes the training activities on new products and tools for customer management and basic programmes involving the new recruits to train up as insurance brokers, in addition to the professional training for other members of staff authorised by IVASS.

As for the initiatives on "Interpersonal Skills", continuing the activities carried out during the previous year, we held training programmes for the network resources to help them develop commercial activities in their area and strengthen the relationship of trust which binds the customer to the Bank.

During the year, specific training programmes were also held for personnel in head office control functions with the aim of facilitating cooperation and interaction among them.

The attention paid by the Group to the growth and development of professional skills has again been acknowledged in 2015 by the Fondo Banche Assicurazioni (FBA), which provided funding for training activities during the year.

## 6.3 - INDUSTRIAL RELATIONS

On 31 March 2015 ABI and the trade unions signed the text of the draft agreement for the renewal of the National Collective Labour for the banking sector, which expired last year.

Following the entry of Banca Popolare di Spoleto S.p.A. and in order to harmonise second-level negotiations within the Group, in late October 2014, we began a process designed to facilitate convergence between the parties. With the Agreement of 5 May 2015 the major types of contracts have been regulated with expiry on 31.12.2015 - while others (including the health care Policy) which still differentiated second-level bargaining for the employees of Banca Popolare di Spoleto S.p.A. from those of the Parent Company, have been extended to 30.04.2016.

With regard to the redefinition of the Group's supplementary contract, the Trade Unions made their requests to the Company in December 2015, so negotiations at Group level are due to begin in the first few months of 2016.

At the end of the year we decided to formalise a union agreement between Banco Desio and the Trade Unions, aimed at liquidating the "Supplementary Pension Fund for Group Personnel" in order to achieve greater management and administrative efficiency which is being increasingly affected by the rising cost of technical and administrative requirements. The dissolution was approved in the forms of law and the articles of association by the Fund's Extraordinary General Meeting, giving members the right to access a form of supplementary pension from a selection of funds made available, essentially with a view to continuity.

# 7 - CONTROL ACTIVITIES

## 7.1 - THE LEVELS OF CONTROL IN THE MANAGEMENT CONTROL AND COORDINATION FUNCTION

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

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

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

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

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

## 7.2 - THE INTERNAL CONTROL SYSTEM

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

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

## 7.3 - RISK MEASUREMENT AND MANAGEMENT

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

# 8 - RESULTS OF OPERATIONS

## 8.1 - SAVINGS DEPOSITS: CUSTOMER FUNDS UNDER MANAGEMENT

Total customer funds under management at 31 December 2015 reached Euro 22.5 billion, representing a decrease of some Euro 0.3 billion (-1.4%) with respect to the 2014 year end balance, mainly attributable to indirect deposits.

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

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

*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Due to customers | 8,244,110 | 36.7% | 7,444,025 | 32.6% | 800,085 | 10.7% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 1,940,932 | 8.6% | 2,822,378 | 12.4% | -881,446 | -31.2% |
| **Direct deposits** | **10,185,042** | **45.3%** | **10,266,403** | **45.0%** | **-81,361** | **-0.8%** |
| Ordinary customer deposits | 8,343,925 | 37.1% | 8,694,528 | 38.1% | -350,603 | -4.0% |
| Institutional customer deposits | 3,966,177 | 17.6% | 3,865,139 | 16.9% | 101,038 | 2.6% |
| **Indirect deposits** | **12,310,102** | **54.7%** | **12,559,667** | **55.0%** | **-249,565** | **-2.0%** |
| **Total customer deposits** | **22,495,144** | **100.0%** | **22,826,070** | **100.0%** | **-330,926** | **-1.4%** |

***Direct deposits***

At the end of the year direct deposits amounted to Euro 10.2 billion, a decrease of Euro 0.1 billion due to the reduction in the balance of debt securities in issue and financial assets valued at fair value of Euro 0.9 billion (-31.2%) and to the rise in amounts due to customers of Euro 0.8 billion (+10.7%). The amounts due to customers represent 80.9% of direct deposits.

The balance due to customers consists for some Euro 6.8 billion of demand deposits, i.e. current accounts and savings deposits, restricted time deposits for Euro 1.3 billion, and for the rest of repurchase agreements and other payables.

Issued debt securities and financial liabilities designated at fair value are related to bonds issued and placed by the Group for about Euro 1.8 billion (including Euro 0.3 billion of subordinated bonds) and certificates of deposits of some Euro 0.1 billion.

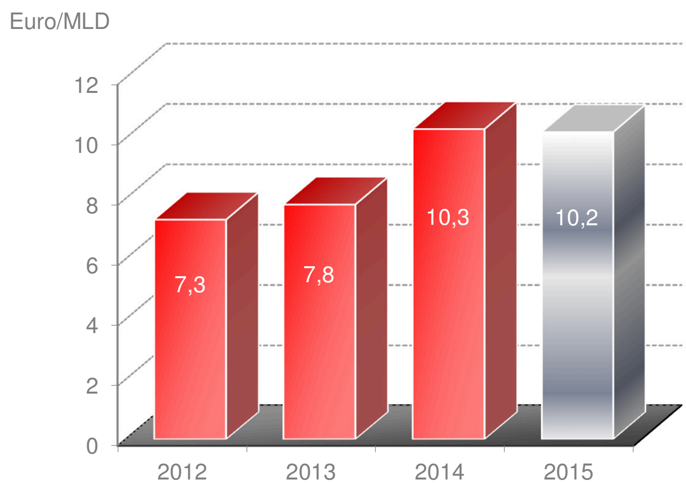
Issued debt securities show the following breakdown by maturity based on their nominal value:

- within one year 443 million euro (of which 13 million euro subordinated securities);
- between 1 and 3 years 795 million euro (of which 32 million euro subordinated securities);
- between 3 and 5 years 326 million euro (of which 100 million euro subordinated securities);
- beyond 5 years; 194 million euro (of which 130 million euro subordinated securities).

In the course of 2015 the total nominal value of bonds issued and placed by the Group amounted to some Euro 0.3 billion, whereas bonds redeemed on maturity amounted to about Euro 0.7 billion.

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

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




***Indirect deposits***

At 31 December 2015 indirect deposits recorded a fall of Euro 0.25 billion, equal to 2% of the balance at the end of the previous year, reaching Euro 12.3 billion.

Ordinary customer deposits came to Euro 8.3 billion, a decrease of Euro 0.35 billion, equal to 4%, which was attributable to the performance of assets under management (-12.9%), partially offset by an increase in assets under administration (+4.8%).

On the other hand, institutional customer deposits increased during the period by 2.6% (Euro 0.1 billion).

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

**Table no. 3 - INDIRECT DEPOSITS**

*Amounts in thousands of Euro*

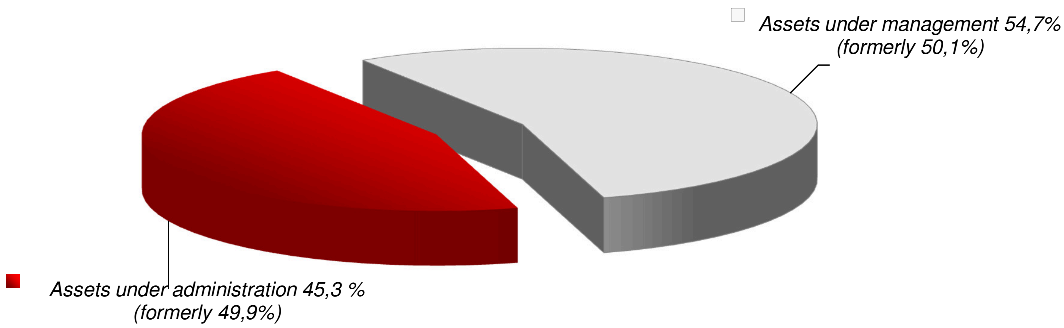
| | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| **Assets under administration (1)** | **3,782,519** | **30.7%** | **4,341,160** | **34.5%** | **-558,641** | **-12.9%** |
| **Assets under management** | **4,561,406** | **37.1%** | **4,353,368** | **34.7%** | **208,038** | **4.8%** |
| *of which: Mutual funds and Sicavs* | *1,584,561* | *12.9%* | *1,329,480* | *10.6%* | *255,081* | *19.2%* |
| *Managed portfolios* | *730,153* | *5.9%* | *553,136* | *4.4%* | *177,017* | *32.0%* |
| *Bancassurance* | *2,246,693* | *18.3%* | *2,470,752* | *19.7%* | *-224,059* | *-9.1%* |
| **Ordinary customer deposits (1)** | **8,343,925** | **67.8%** | **8,694,528** | **69.2%** | **-350,603** | **-4.0%** |
| **Institutional customer deposits (2)** | **3,966,177** | **32.2%** | **3,865,139** | **30.8%** | **101,038** | **2.6%** |
| **Indirect deposits (1) (2)** | **12,310,102** | **100.0%** | **12,559,667** | **100.0%** | **-249,565** | **-2.0%** |

(1) at 31.12.2015 the volumes are net of the bonds issued by the Parent Company and placed with customers of Banca Popolare di Spoleto S.p.A. (Euro 117.6 million) and vice versa (Euro 0.8 million);

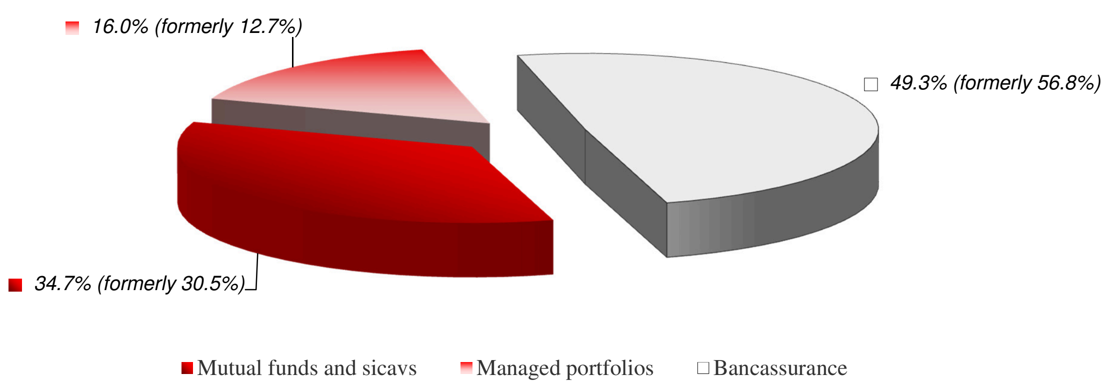
(2) institutional customer deposits include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for 2.2 billion euro (about 2.4 billion euro at 31.12.2014).

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 31 December 2015. It shows how the majority share of the managed segment is larger than in the previous year. The subsequent chart focuses on the breakdown of the elements in this segment.

**Graph no. 7 - BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2015**




**Graph no. 8 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2015**




Within the various elements, namely mutual funds, sicavs and managed portfolios, there have been different trends in the various classes during the year. In equity markets, the best returns in terms of profitability have come from Europe and Japan, whereas the United States have provided little satisfaction; emerging countries have posted substantial declines. As for bonds, expectations for rate hikes have been weighing on US government bonds, whereas the ECB's expansionary monetary policy enhanced returns of Eurozone government bonds. In managed bond portfolios, the management policy was essentially looking for investments whose performance was correlated as little as possible with interest rates. In managed equity portfolios, the constructive approach that led the Bank to have a level of investment in line with the benchmark was confirmed. A good level of geographical diversification, preference was given to the Eurozone and, in particular, to Italy.

## 8.2 - CREDIT MANAGEMENT: LOANS TO CUSTOMERS

The total value of loans to ordinary customers at the end of 2015 came at Euro 9.4 billion, with a decrease of about 0.1 billion euro, equal to 0.9% of the balance at the end of 2014.

Considering the elimination of loans to institutional customers, represented entirely by repurchase agreements, which amounted to Euro 0.2 billion at the end of the previous year, the Group's lending activities resulted in an overall decrease in net loans to customers of about 0.3 billion euro (-2.9%).

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

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

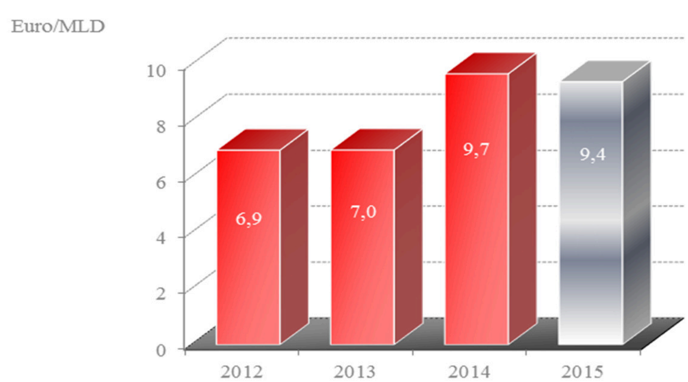



**Table no. 4 - LOANS TO CUSTOMERS**

*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Current accounts | 1,818,025 | 19.4% | 1,892,751 | 19.5% | -74,726 | -3.9% |
| Mortgages and other long-term loans | 6,311,065 | 67.2% | 6,310,885 | 65.3% | 180 | 0.0% |
| Other | 1,257,221 | 13.4% | 1,264,903 | 13.1% | -7,682 | -0.6% |
| **Loans to ordinary customers** | **9,386,311** | **100.0%** | **9,468,539** | **97.9%** | **-82,228** | **-0.9%** |
| Repurchase agreements | | | 198,361 | 2.1% | -198,361 | -100.0% |
| **Loans to institutional customers** | | | **198,361** | **2.1%** | **-198,361** | **-100.0%** |
| **Loans to customers** | **9,386,311** | **100.0%** | **9,666,900** | **100.0%** | **-280,589** | **-2.9%** |

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2015 continues to reflect a high degree of risk diversification, although amounts are increasing as can be seen from the following table.

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

| Number of customers (1) (2) | 31.12.2015 | 31.12.2014 |
|---|---|---|
| First 10 | 1.31% | 1.14% |
| First 20 | 2.13% | 2.01% |
| First 30 | 2.85% | 2.71% |
| First 50 | 3.99% | 3.91% |

(1) based on the figures of the Parent Company and the subsidiary Banca Popolare di Spoleto S.p.A. and, at 31.12.2014, also of the former subsidiary Banco Desio Lazio S.p.A.;

(2) net of repurchase agreements with institutional counterparties of Euro 198.4 million at 31.12.2014.

In compliance with supervisory regulations, at the end of 2015, two positions were identified classifiable as "Major Risks" and recovered a total nominal value (inclusive of guarantees given and commitments) of about Euro 2.1 billion, corresponding to a total weighted amount of Euro 0.2 billion, referring to exposures to the Treasury Ministry and Cassa di Compensazione e Garanzia S.p.A.

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.

The Group's lending policies have absorbed the new rules on non-performing loans and the identification of performing and non-performing exposures subject to forbearance. The lending policies have also been further refined to reflect the process of updating the Bank's information on the valuation of real estate collateral.

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 the end of the prior year restated according to the new definitions of non-performing loans are in line with the non-performing loans calculated according to the Bank of Italy's previous guidelines.

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 904.6 million at 31 December 2015, net of adjustments of Euro 818.5 million, an increase of Euro 50.6 million compared with 31 December 2014.

In particular, net doubtful loans totalled Euro 443.9 million, unlikely to pay, Euro 412 million and non-performing past due and/or overdrawn exposures Euro 48.7 million.

The following table summarises the gross and net indicators relating to credit risk, showing values 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 31 December 2015.

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

| **% of gross loans (1)** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Gross non-performing loans to customers | 16.79% | 15.65% |
| *of which:* | | |
| - gross doubtful loans | 10.42% | 9.78% |
| - unlikely to pay, gross | 5.83% | 5.40% |
| - non-performing past due and/or overdrawn exposures, gross | 0.55% | 0.47% |
| **% of net loans** | **31.12.2015** | **31.12.2014** |
| Net non-performing loans to customers | 9.64% | 8.83% |
| *of which:* | | |
| - net doubtful loans | 4.73% | 4.41% |
| - unlikely to pay, net | 4.39% | 3.96% |
| - non-performing past due and/or overdrawn exposures, net | 0.52% | 0.46% |

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

The main indicators on the coverage of 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.

It can be seen that the levels of coverage are close in total to those of the previous year, even considering the two assignments of (non-performing) loans by Banca Popolare di Spoleto S.p.A. of about 62.3 million euro and 46.8 million euro, respectively; the average coverage at 31.12.2014 was approximately 95.7%.

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

| **% coverage of non-performing and performing loans (1)** | **31.12.2015** | **31.12.2014** |
|---|---:|---:|
| % Coverage of doubtful loans | 58.48% | 58.52% |
| % Coverage of doubtful loans, gross of cancellations | 64.18% | 65.22% |
| % Total coverage of non-performing loans | 47.50% | 48.11% |
| % Coverage of non-performing loans, gross of cancellations | 52.23% | 53.69% |
| % Coverage of performing loans | 0.67% | 0.65% |

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

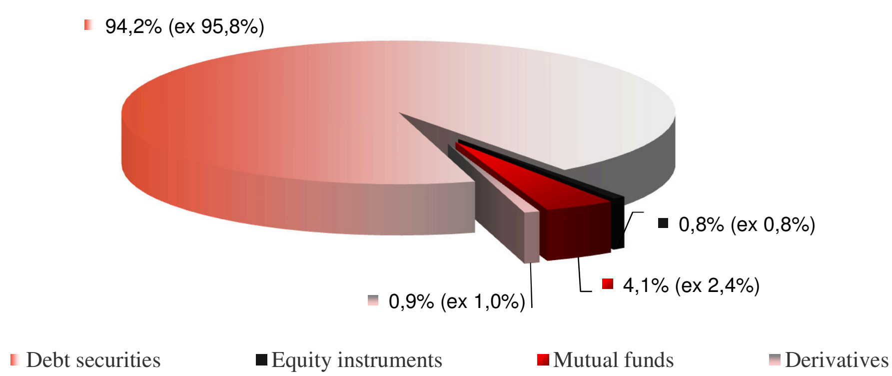
## 8.3 - THE SECURITIES PORTFOLIO AND INTERBANK POSITION

***Securities portfolio***

At 31 December 2015, the Group's total financial assets amounted to Euro 1.9 billion, in line with the end of 2014 (-0.2%).

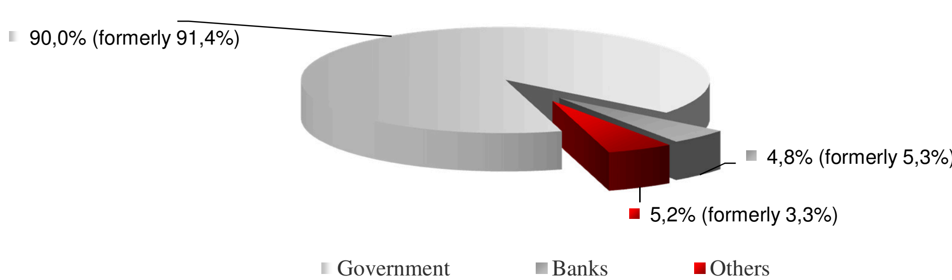
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (94.2%) of the investments still consist of debt securities.

**Graph no. 10 - % BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2015 BY TYPE OF SECURITIES**




With reference to the issuers of securities, the total portfolio at the end of 2015 consist of 90% relates to government securities, 4.8% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

**Graph no. 11 - % BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2015 BY TYPE OF ISSUER**



The Bank's intense activity during the year was therefore characterised by trading above all in Italian government bonds.

Generally, Eurozone bond markets maintained a positive trend, fuelled in particular by the action taken by the European Central Bank to boost the business cycle's growth rate and avoid deflationary spirals. Quantitative easing resulted in the narrowing of spreads between "peripheral" and German government bonds, with negative returns on the curve up to 2 years for Italian government bonds and up to 5 years for German government bonds. Concerns about the sustainability of the global recovery, on the other hand, have weighed on corporate and emerging market bonds, especially those denominated in local currency.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Parent Company uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions. The Parent Company has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments.

In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral with predominantly daily margining and zero threshold. In such cases the other party is considered "risk free".

During 2015, there was a completion of the first phase of migration to the new European platform for the settlement of securities transactions called Target2-securities (T2S), which involved the Italian system and therefore Monte Titoli, the central securities depository.

This platform, which was created to harmonise and unify the regulation of securities and cash transactions in Europe, immediately generated benefits in terms of simplification and standardisation of settlement procedures and optimisation in the management of liquidity easily transferable from the Dedicated Cash Account in T2S to the account at the Bank of Italy.

The Parent Company has considered an indirect connection with T2S as the most suitable for its operations and for the infrastructure and project investment costs; It has also joined the Target2 services for the cash component and the Monte Titoli central depository services for securities.

***Sovereign debt exposures***

With reference to document no. 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31.12.2015 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

*Amounts in thousands of Euro*

| | | Italy | Spain | 31.12.2015 |
|---|---|---|---|---|
| Financial assets available for trading | Nominal value | 2,147 | | 2,147 |
| | Book value | 1,402 | | 1,402 |
| Financial assets available for sale | Nominal value | 1,593,000 | 75,000 | 1,668,000 |
| | Book value | 1,634,028 | 76,946 | 1,710,974 |
| **Sovereign debt** | **Nominal value** | **1,595,147** | **75,000** | **1,670,147** |
| | **Book value** | **1,635,430** | **76,946** | **1,712,376** |

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

*Amounts in thousands of Euro*

| | | Italy | Spain | 31.12.2015 | |
|---|---|---|---|---|---|
| | | | | Nominal value | Book value |
| Financial assets available for trading | up to 1 year | | | | |
| | 1 to 3 years | | | | |
| | 3 to 5 years | 1 | | 1 | 1 |
| | over 5 years | 2,146 | | 2,146 | 1,401 |
| | Total | 2,147 | 0 | 2,147 | 1,402 |
| Financial assets available for sale | up to 1 year | 216,000 | | 216,000 | 217,294 |
| | 1 to 3 years | 588,000 | | 588,000 | 600,115 |
| | 3 to 5 years | 329,000 | 75,000 | 404,000 | 408,834 |
| | over 5 years | 460,000 | | 460,000 | 484,731 |
| | Total | 1,593,000 | 75,000 | 1,668,000 | 1,710,974 |
| **Sovereign debt** | **up to 1 year** | **216,000** | **0** | **216,000** | **217,294** |
| | **1 to 3 years** | **588,000** | **0** | **588,000** | **600,115** |
| | **3 to 5 years** | **329,001** | **75,000** | **404,001** | **408,835** |
| | **over 5 years** | **462,146** | **0** | **462,146** | **486,132** |
| | **Total** | **1,595,147** | **75,000** | **1,670,147** | **1,712,376** |

***Net interbank position***

The Group's net interbank position at 31 December 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.

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

## 8.4 - SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity pertaining to the Parent Company at 31 December 2015, including net profit for the period, amounts to Euro 870.4 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 31 December 2015, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

**Table no. 10 - RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 31.12.2015**

*Amounts in thousands of Euro*

| | Shareholders' equity | *of which: Net profit (loss) for the period* |
|---|---|---|
| **Parent Company balances at 31 December 2015** | **852,045** | ***37,445*** |
| Effect of consolidation of subsidiaries | 14,613 | *2,884* |
| Effect of valuation of associates at net equity | 3,791 | *1,699* |
| Dividends collected during the period | - | *-3,856* |
| **Consolidated balances at 31 December 2015** | **870,449** | **38,172** |

Shareholders' equity calculated in accordance with the regulatory provisions, defined as Own Funds, after a pay out of 29.4% (calculated according to the allocation of the profit for the year of Group companies as approval by the respective Shareholders Meetings), at 31 December 2015 amounts to Euro 1,106.1 million (CET1 + AT1 of Euro 870.7 million + T2 of Euro 235.4 million), with an increase of Euro 115.3 million on the figure of Euro 990.8 million at the end of the previous year.

At 31 December 2015, the *Common Equity Tier 1 ratio* (CET1/Risk-weighted assets) was 10.8% (10.3% at 31 December 2014). The *Tier 1 ratio* (T1/Risk-weighted assets) was 11% (10.5% at 31 December 2014), while the *Total Capital Ratio* (total Own Funds/Risk-weighted assets) was 13.9% (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.

**As pointed out in the communication dated 26 August 2015, the Parent Company has also received the Bank of Italy's notification regarding the capital requirements to be met at the end of the Supervisory Review and Evaluation Process (SREP), which confirm the following capital ratios at a consolidated level: 7% Common Equity Tier1 ratio, 8.5% Tier1 ratio, 10.5% Total Capital ratio. They are capital requirements that are amply exceeded by the Group current ratios at 31 December 2015 and which confirm the Group's low level of risk.** The following is a summary of the Group's capital ratios compared with the minimum ratios required by the SREP process.

| | Banco Desio Group | SREP | diff. |
|---|---|---|---|
| ***CET 1*** | **10.80%** | **7.00%** | **3.80%** |
| ***TIER 1*** | **11.00%** | **8.50%** | **2.50%** |
| ***TOTAL CAPITAL RATIO*** | **13.90%** | **10.50%** | **3.40%** |

## 8.5 - RECLASSIFIED INCOME STATEMENT

To allow a consistent vision that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the consolidated financial statements, which forms the basis of the following comments.

The presentation criteria for this table are as follows:

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

As shown in the following table, which presents the reclassified Income Statement, 2015 closed with a net profit attributable to the Parent Company of Euro 38.2 million, compared with a net profit of Euro 40.6 million reported for the previous year: this included a net contribution of the Finance business associated with the sale by the

Parent Company of all the financial instruments in the *HTM – Held to Maturity* portfolio of Euro 8.4 million, as well as Euro 9.6 million of the gain from the acquisition of assets and the assumption of liabilities of Banca Popolare di Spoleto S.p.A. at their respective fair values (acquisition method).

As mentioned in the “Introduction”, it is worth noting the lack of comparability of the figures on a consistent basis, considering the fact that in the previous year the subsidiary Banca Popolare di Spoleto S.p.A. contributed for only 5 months (August-December 2014).

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

*Amounts in thousands of Euro*

| Captions | | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|---|
| | | | | Amount | % |
| 10+20 | Net interest income | 261,535 | 227,699 | 33,836 | 14.9% |
| 70 | Dividends and similar income | 299 | 114 | 185 | 162.3% |
| | Profit from associates | 1,699 | 1,061 | 638 | 60.1% |
| 40+50 | Net commission income | 161,050 | 133,739 | 27,311 | 20.4% |
| 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 | 30,866 | 51,534 | -20,668 | -40.1% |
| 220 | Other operating income/expense | 15,340 | 17,661 | -2,321 | -13.1% |
| | **Operating income** | **470,789** | **431,808** | **38,981** | **9.0%** |
| 180 a | Payroll costs | -179,533 | -154,413 | -25,120 | 16.3% |
| 180 b | Other administrative costs | -86,313 | -77,751 | -8,562 | 11.0% |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -12,715 | -11,012 | -1,703 | 15.5% |
| | **Operating costs** | **-278,561** | **-243,176** | **-35,385** | **14.6%** |
| | **Result of operations** | **192,228** | **188,632** | **3,596** | **1.9%** |
| | Gains (Losses) on disposal or repurchase of loans | -1,915 | -1,634 | -281 | 17.2% |
| 130 a | Net impairment adjustments to loans and advances | -147,773 | -150,888 | 3,116 | -2.1% |
| 130 b | Net impairment adjustments to financial assets available for sale | -384 | 0 | -384 | |
| 130 d | Net impairment adjustments to other financial assets | -1,009 | 446 | -1,455 | n.s. |
| 190 | Net provisions for risks and charges | 200 | 160 | 39 | 24.4% |
| | **Profit (loss) from operations before tax** | **41,347** | **36,716** | **4,631** | **12.6%** |
| 290 | Income taxes on current operations | -8,959 | -15,634 | 6,675 | -42.7% |
| | **Profit (loss) from operations after tax** | **32,388** | **21,082** | **11,306** | **53.6%** |
| 240+270 | Profit (loss) from investments and disposal of investm | 12,350 | 11,818 | 532 | 4.5% |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | -10,402 | 10,016 | -20,418 | n.s. |
| | **Non-recurring profit (loss) before tax** | **1,948** | **21,834** | **-19,886** | **-91.1%** |
| | Income taxes from non-recurring items | 3,262 | -3,489 | 6,751 | n.s. |
| | **Non-recurring profit (loss) after tax** | **5,210** | **18,345** | **-13,135** | **-71.6%** |
| **320** | **Net profit (loss) for the period** | **37,598** | **39,427** | **-1,829** | **-4.6%** |
| 330 | Minority interests | 574 | 1,174 | -600 | -51.1% |
| **340** | **Parent Company net profit (loss)** | **38,172** | **40,601** | **-2,429** | **-6.0%** |

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

## Table no. 12 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2015

*Amounts in thousands of Euro*

| Captions | | As per financial statements | Reclassifications | | | | | | | | Reclassified income statement |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 31.12.2015 | Gains on disposal of financial assets held to maturity | Tax/expense recoveries | Profit from associates | Profit (loss) from equity investments | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Income taxes | 31.12.2015 |
| 10+20 | Net interest income | 261,535 | | | | | | | | | 261,535 |
| 70 | Dividends and similar income | 299 | | | | | | | | | 299 |
| | Profit from associates | | | | 1,699 | | | | | | 1,699 |
| 40+50 | Net commission income | 161,050 | | | | | | | | | 161,050 |
| 80+90+100 +110 | Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss | 32,234 | 0 | | | -3,283 | | 1,915 | | | 30,866 |
| 220 | Other operating income/expense | 49,704 | | -37,446 | | | 3,082 | | | | 15,340 |
| | **Operating income** | **504,822** | **0** | **-37,446** | **1,699** | **-3,283** | **3,082** | **1,915** | **0** | **0** | **470,789** |
| 180 a | Payroll costs | -179,772 | | | | | | | 239 | | -179,533 |
| 180 b | Other administrative costs | -133,132 | | 37,446 | | | | | 9,373 | | -86,313 |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -9,633 | | | | | -3,082 | | | | -12,715 |
| | **Operating costs** | **-322,537** | **0** | **37,446** | **0** | **0** | **-3,082** | **0** | **9,612** | **0** | **-278,561** |
| | **Result of operations** | **182,285** | **0** | **0** | **1,699** | **-3,283** | **0** | **1,915** | **9,612** | **0** | **192,228** |
| | Gains (Losses) on disposal or repurchase of loans | | | | | | | -1,915 | | | -1,915 |
| 130 a | Net impairment adjustments to loans and advances | -143,429 | | | | | | | -4,344 | | -147,773 |
| 130 b | Net impairment adjustments to financial assets available for sale | -384 | | | | | | | | | -384 |
| 130 d | Net impairment adjustments to other financial assets | -1,009 | | | | | | | | | -1,009 |
| 190 | Net provisions for risks and charges | -4,934 | | | | | | | 5,134 | | 200 |
| | **Profit (loss) from operations before tax** | **32,529** | **0** | **0** | **1,699** | **-3,283** | **0** | **0** | **10,402** | **0** | **41,347** |
| 290 | Income taxes on current operations | -5,697 | | | | | | | | -3,262 | -8,959 |
| | **Profit (loss) from operations after tax** | **26,832** | **0** | **0** | **1,699** | **-3,283** | **0** | **0** | **10,402** | **-3,262** | **32,388** |
| 240+270 | Profit (loss) from investments and disposal of investments | 10,766 | | | -1,699 | 3,283 | | | | | 12,350 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | 0 | | | | | | -10,402 | | -10,402 |
| | **Non-recurring profit (loss) before tax** | **10,766** | **0** | **0** | **-1,699** | **3,283** | **0** | **0** | **-10,402** | **0** | **1,948** |
| | Income taxes from non-recurring items | | | | | | | | | 3,262 | 3,262 |
| | **Non-recurring profit (loss) after tax** | **10,766** | **0** | **0** | **-1,699** | **3,283** | **0** | **0** | **-10,402** | **3,262** | **5,210** |
| **320** | **Net profit (loss) for the period** | **37,598** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **37,598** |
| 330 | Minority interests | 574 | | | | | | | | | 574 |
| **340** | **Parent Company net profit (loss)** | **38,172** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **38,172** |

## Table no. 13 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2014

*Amounts in thousands of Euro*

| Captions | | As per financial statements 31.12.2014 | Reclassifications: Gains on disposal of financial assets held to maturity | Tax/expense recoveries | Profit from associates | Gains (Losses) on sale of investments | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Income taxes | Reclassified income statement 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10+20 | Net interest income | 227,699 | | | | | | | | 0 | 227,699 |
| 70 | Dividends and similar income | 114 | | | | | | | | | 114 |
| | Profit from associates | | | | 1,061 | | | | | | 1,061 |
| 40+50 | Net commission income | 133,739 | | | | | | | | | 133,739 |
| 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 | 62,328 | -12,428 | | | | | 1,634 | | | 51,534 |
| 220 | Other operating income/expense | 42,259 | | -27,577 | | | 2,979 | | | | 17,661 |
| | **Operating income** | **466,139** | **-12,428** | **-27,577** | **1,061** | **0** | **2,979** | **1,634** | **0** | **0** | **431,808** |
| 180 a | Payroll costs | -154,663 | | | | | | | 250 | | -154,413 |
| 180 b | Other administrative costs | -107,490 | | 27,577 | | | | | 2,162 | | -77,751 |
| 200+210 | Net adjustments to property, plant and equipment and intangible assets | -8,033 | | | | | -2,979 | | | | -11,012 |
| | **Operating costs** | **-270,186** | **0** | **27,577** | **0** | **0** | **-2,979** | **0** | **2,412** | **0** | **-243,176** |
| | **Result of operations** | **195,953** | **-12,428** | **0** | **1,061** | **0** | **0** | **1,634** | **2,412** | **0** | **188,632** |
| | Gains (Losses) on disposal or repurchase of loans | | | | | | | -1,634 | | | -1,634 |
| 130 a | Net impairment adjustments to loans and advances | -150,494 | | | | | | | -394 | | -150,888 |
| 130 b | Net impairment adjustments to financial assets available for sale | 0 | | | | | | | | | 0 |
| 130 d | Net impairment adjustments to other financial assets | 446 | | | | | | | | | 446 |
| 190 | Net provisions for risks and charges | -234 | | | | | | | 394 | | 160 |
| | **Profit (loss) from operations before tax** | **45,671** | **-12,428** | **0** | **1,061** | **0** | **0** | **0** | **2,412** | **0** | **36,716** |
| 290 | Income taxes on current operations | -19,123 | | | | | | | | 3,489 | -15,634 |
| | **Profit (loss) from operations after tax** | **26,548** | **-12,428** | **0** | **1,061** | **0** | **0** | **0** | **2,412** | **3,489** | **21,082** |
| 240+270 | Profit (loss) from investments and disposal of investments | 12,879 | | | -1,061 | | | | | | 11,818 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | 12,428 | | | | | | -2,412 | | 10,016 |
| | **Non-recurring profit (loss) before tax** | **12,879** | **12,428** | **0** | **-1,061** | **0** | **0** | **0** | **-2,412** | **0** | **21,834** |
| | Income taxes from non-recurring items | | | | | | | | | -3,489 | -3,489 |
| | **Non-recurring profit (loss) after tax** | **12,879** | **12,428** | **0** | **-1,061** | **0** | **0** | **0** | **-2,412** | **-3,489** | **18,345** |
| **320** | **Net profit (loss) for the period** | **39,427** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **39,427** |
| 330 | Minority interests | 1,174 | | | | | | | | | 1,174 |
| **340** | **Parent Company net profit (loss)** | **40,601** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **40,601** |

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

***Operating income***

Core revenues increased by 9% on prior year, rising to Euro 470.8 million, being an increase of some Euro 39 million. The increase is mainly attributable to *net interest income* which by coming in at Euro 261.5 million posted growth of Euro 33.8 million (+14.9%) and *net commission income*, which at Euro 161 million, showed an increase of Euro 27.3 million (+20.4%). 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 20.7 million (-40.1%), as in *other operating income/expense*, which has decreased by Euro 2.3 million.

***Operating costs***

*Operating costs*, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets amount to Euro 278.6 million and have increased, with respect to the prior year, by Euro 35.4 million (+14.6%).

In particular, the increases involved *payroll costs* for Euro 25.1 million (+16.3%), net of Euro 0.2 million for the release of IAS discounting on the Solidarity Fund and early retirement incentives as per the Redundancy Plan, reclassified to Non-recurring profit (loss), *other administrative expenses* for Euro 8.6 million (+11%), as well as *net adjustments to property, plant and equipment and intangible assets* for Euro 1.7 million (+15.5%).

It should be noted that the balance of *other administrative expense* includes Euro 2.8 million of the gross ordinary contributions to the resolution fund (“Contribution SRM - Single Resolution Mechanism”) for 2015 (1.7 million euro for the Parent Company and 1.1 million euro for the subsidiary Banca Popolare di Spoleto) and Euro 1.6 million of the gross ordinary contributions to the fund for the protection of guaranteed deposits (DGS contributions – “Deposit Guarantee Scheme”) for 2015 (1 million euro for the Parent Company and 0.7 million euro for Banca Popolare di Spoleto) under the resolution provision adopted by the Bank of Italy, after the approval of Legislative Decree 180/2015 by the Government, as indicated in the paragraph *“Significant events”*. The balance is net of Euro 8.4 million (5.3 million euro for the Parent Company and 3.1 million euro for Banca Popolare di Spoleto) of the gross extraordinary contributions to the resolution Fund (SRM – “Single Resolution Mechanism”) and of Euro 1 million for advisory costs relating to the acquisition and integration into the Group of Banca Popolare di Spoleto (Euro 2.2 million in the previous year) both reclassified as Non-recurring profit (loss) under *extraordinary provisions for risks and charges/other provisions and expenses/gains on disposal of financial assets held to maturity*.

***Result of operations***

The result of operations at the end of the year therefore comes to Euro 192.2 million, an increase of 1.9% on last year, i.e. about Euro 3.6 million.

***Net profit (loss) from operations after tax***

Net impairment adjustments to loans and advances amounted to Euro 147.8 million, with a decrease on Euro 150.9 million of the previous year.

Losses on disposal or repurchase of loans of Euro 1.9 million, *net impairment adjustments to other financial transactions of* Euro 1 million, *net impairment adjustments to financial assets of* Euro 0.4 million, the positive balance of *net provisions for risks and charges and taxes on income from continuing operations of* Euro 9 million, lead to a *net profit from operations after tax* of Euro 32.4 million, an increase of Euro 11.3 million on the previous year’s balance (+53.6%),

It should be noted that the balance of *net provisions for risks and charges* is net of Euro 0.8 million of the gross overall contribution (0.5 million euro for the Parent Company and 0.3 million euro for Banca Popolare di Spoleto) due to the Solidarity Fund created on the basis of the 2016 Stability Law for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara (as mentioned in the section on *“Significant Events”*) reclassified as *Non-recurring profit (loss) under Extraordinary provisions for risks and charges/other provisions and expenses/gains on disposal of financial assets held to maturity*.

*Taxes on income from continuing operations* include the positive effects of about Euro 3.2 million for the Parent Company due to the reversal of deferred tax liabilities for Euro 1.3 million and to the recognition of deferred tax assets on goodwill transferred for statutory purposes to Banca Popolare di Spoleto, for Euro 1.3 million to the reimbursement received from the Treasury for the rebate requested in 2009 under Decree Law no. 185/2008 (the so-called “Anti-Crisis Decree”) for a 10% forfeit deduction of IRAP from the IRES tax base for the years 2004, 2005, 2006 and 2007 and for Euro 0.6 million to the net deferred tax assets recorded for IRAP purposes on the provisions for personnel charges set aside in previous years.

***Non-recurring profit (loss) after tax***

There was a *non-recurring profit after tax* of Euro 5.2 million, a decrease of Euro 13.1 million on the balance of Euro 18.3 million of the previous year.

The balance includes the income at consolidated level of approximately Euro 12.3 million for the reclassification of the “Exchange Differences” reserve to the profit for the period as a result of the valuation of the Parent Company’s investment in CPC in liquidation at the exchange rate ruling on 1 October 2015 following the change in functional currency from CHF to Euro, which took place on substantial completion of the Company’s liquidation.

This caption also includes consulting fees relating to the acquisition and integration of the subsidiary Banca Popolare di Spoleto into the Group and the gross extraordinary contribution to the Single Resolution Mechanism for a total of 8.4 million euro (5.3 million euro for the Parent Company and 3.1 million euro for Banca Popolare di Spoleto) reclassified to *other administrative costs*, and Euro 0.8 million of the gross contribution (0.5 million euro for the Parent Company and 0.3 million euro for the subsidiary Banca Popolare di Spoleto) to the Solidarity Fund under the 2016 Stability Law, and reclassified from net provisions to the provision for risks and charges, the impact of IAS discounting on the Solidarity Fund and early retirement incentives of Euro 0.2 million, as well as the related tax effects of the reclassifications.

The comparative figure shows a profit of about Euro 18.3 million, mainly consisting of the net contribution of Euro 8.4 million resulting from the sale by the Parent Company of all financial instruments included in the HTM - *Held To Maturity* portfolio, consulting fees related to the proposed acquisition of control of Banca Popolare di Spoleto of Euro 1.5 million, the gain on the sale of the property belonging to CPC in liquidation of Euro 2 million and the income of Euro 9.6 million recognised on the subsidiary's assets acquired and liabilities assumed at their fair value (acquisition method).

***Parent Company net profit/(loss)***

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests of Euro 0.6 million, leads to a net profit for the Parent Company at 31 December 2015 of Euro 38.2 million, which compares with Euro 40.6 million the previous year.

# 9 - OTHER INFORMATION

## 9.1 - TREASURY SHARES

At 31 December 2015, as well as the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and neither have there been any movements in relation to a third party or a trust company in the course of the year.

## 9.2 - RATINGS

On 2 July 2015, the Parent Company announced, following its annual rating review, that Fitch Ratings International Agency 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”

## 9.3 - TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED PERSONS

For a more detailed description of the procedures that regulate transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated entities (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Group’s website pursuant to art. 123-bis of the CFA, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2014 are disclosed in Part H of the explanatory notes.

## 9.4 - INFORMATION ON INCENTIVE PLANS

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving free allocation of ordinary shares in favour of Management of Banco Desio Group, approved by the Ordinary Shareholders’ Meeting of 29 November 2011, note that an assessment has been carried out on the conditions for the effective allocation of securities relating to the 3rd and last grant cycle for the three-year performance period 2013-2015. With consolidated results for 2015, three-year gate targets of liquidity and assets have been positively achieved, and the ratio between the cumulative Consolidated Adjusted Result and the related Budget stood at the level required, pursuant to the Regulations of the Plan, the conditions for the bonus increase in capital are met as well as the delivery to 27 beneficiaries of a total of no. 89,823 Banco di Desio’s ordinary shares and the recognition of an amount equivalent to 24,648 ordinary shares in favour of the Chief Executive Officer. Taking into consideration that the direct and indirect costs and management complexity of this operation are related to a small increase in capital and considering also that the Regulations of the Plan do not provide for beneficiaries being subject to lock-up restrictions (so they could sell the benefit without any further delay), we thought it preferable to extend the payment of an equivalent amount to all beneficiaries.

As we said, this approach is envisaged for executive directors in the Regulations of the Plan. With the execution of this substitute payment, the Stock Grant 2011-2013 Plan has to be considered in all respects concluded.

It should also be noted that the incentive scheme, under which the Plan operated, was subject to review by Board resolution of 19 December 2013, providing for a comprehensive review of remuneration policies; in this regard, reference should be made to the “Report on the Group’s Remuneration Policies” prepared in accordance with art. 123-ter CBA.

## 9.5 - REPORT ON THE ADOPTION OF THE CODE OF CONDUCT FOR LISTED COMPANIES

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

## 9.6 - RESEARCH AND DEVELOPMENT ACTIVITIES

In its capacity as Parent Company, Banco di Desio e della Brianza S.p.A., as described in paragraph 7.1 “The levels of control in the management control and coordination function”, undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

## 9.7 - OPT-OUT FROM OBLIGATION TO PUBLISH INFORMATION DOCUMENTS FOR EXTRAORDINARY OPERATIONS PURSUANT TO CONSOB REGULATIONS

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

# 10 - OUTLOOK FOR THE REST OF 2016 AND PRINCIPAL RISKS AND UNCERTAINTIES

Based on the final results for 2015 and on the latest performance forecasts, we expect for the current year to achieve gross ordinary operating results well in line with those of the year just ended.

As regards the principal risks and uncertainties, note that this report and, more generally, the consolidated Financial Statements at 31 December 2015 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future. The capital and financial structure and operating performance of the Group provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in the world economy and financial markets with the principal risks that they involve, while the controls over the Bank's operations and the various types of risk are described in detail in Part E of the explanatory notes – Information on risks and related hedging policy.

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

The Board of Directors

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

*Desio, 11 February 2016*

# Consolidated Financial Statements

Gruppo Banco Desio

# CONSOLIDATED BALANCE SHEET

## ASSETS

| Assets captions | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| 10. Cash and cash equivalents | 62,306 | 62,890 | -584 | -0.90% |
| 20. Financial assets held for trading | 16,038 | 18,727 | -2,689 | -14.40% |
| 40. Financial assets available for sale | 1,881,131 | 1,877,959 | 3,172 | 0.20% |
| 60. Due from banks | 292,992 | 288,282 | 4,710 | 1.60% |
| 70. Loans to customers | 9,386,311 | 9,666,900 | -280,589 | -2.90% |
| 80. Hedging derivatives | 4,601 | 8,372 | -3,771 | -45.00% |
| 90. Adjustment to financial assets w ith generic hedge (+/-) | 1,408 | 2,478 | -1,070 | -43.20% |
| 100. Equity investments | 13,261 | 14,806 | -1,545 | -10.40% |
| 120. Property, plant and equipment | 184,983 | 185,887 | -904 | -0.50% |
| 130. Intangible assets | 18,207 | 18,384 | -177 | -1.00% |
| of w hich: | | | | |
| *- goodwill* | *15,322* | *15,322* | | *0.00%* |
| 140. Tax assets | 224,266 | 241,040 | -16,774 | -7.00% |
| *a) current* | *29,105* | *43,865* | *-14,760* | *-33.60%* |
| *b) deferred* | *195,161* | *197,175* | *-2,014* | *-1.00%* |
| *of which Law 214/2011* | *173,678* | *173,730* | *-52* | *0.00%* |
| 150. Non-current assets and disposal groups held for sale | 4,967 | 0 | 4,967 | 100.00% |
| 160. Other assets | 157,659 | 177,945 | -20,286 | -11.40% |
| **Total assets** | **12,248,130** | **12,563,670** | **-315,540** | **-2.50%** |

# LIABILITIES

| Liabilities and shareholders' equity | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| 10. Due to banks | 753,115 | 1,017,467 | -264,352 | -26.00% |
| 20. Due to customers | 8,244,110 | 7,444,025 | 800,085 | 10.70% |
| 30. Debt securities in issue | 1,918,104 | 2,798,752 | -880,648 | -31.50% |
| 40. Financial liabilities held for trading | 5,148 | 3,259 | 1,889 | 58.00% |
| 50. Financial liabilities designated at fair value through profit and loss | 22,828 | 23,626 | -798 | -3.40% |
| 60. Hedging derivatives | 24,758 | 6,717 | 18,041 | 268.60% |
| 80. Tax liabilities | 31,616 | 36,156 | -4,540 | -12.60% |
| *a) current* | *75* | *2,156* | *-2,081* | *-96.50%* |
| *b) deferred* | *31,541* | *34,000* | *-2,459* | *-7.20%* |
| 90. Liabilities associated with assets held for sale | 754 | | 754 | 100.00% |
| 100. Other liabilities | 249,205 | 253,959 | -4,754 | -1.90% |
| 110. Provision for termination indemnities | 29,712 | 34,985 | -5,273 | -15.10% |
| 120. Provisions for risks and charges: | 46,725 | 44,670 | 2,055 | 4.60% |
| *b) other provisions* | *46,725* | *44,670* | *2,055* | *4.60%* |
| 140. Valuation reserves | 21,767 | 27,975 | -6,208 | -22.20% |
| 170. Reserves | 726,660 | 693,201 | 33,459 | 4.80% |
| 180. Share premium reserve | 16,145 | 16,145 | | 0.00% |
| 190. Share capital | 67,705 | 67,705 | | 0.00% |
| 210. Minority interests | 51,606 | 54,427 | -2,821 | -5.20% |
| 220. Net profit (loss) for the period (+/-) | 38,172 | 40,601 | -2,429 | -6.00% |
| **Total liabilities and shareholders' equity** | **12,248,130** | **12,563,670** | **-315,540** | **-2.50%** |

## CONSOLIDATED INCOME STATEMENT

| Captions | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| 10. Interest and similar income | 363,666 | 352,890 | 10,776 | 3.10% |
| 20. Interest and similar expense | -102,131 | -125,191 | 23,060 | -18.40% |
| **30. Net interest income** | **261,535** | **227,699** | **33,836** | **14.90%** |
| 40. Commission income | 182,394 | 152,758 | 29,636 | 19.40% |
| 50. Commission expense | -21,344 | -19,019 | -2,325 | 12.20% |
| **60. Net commissions** | **161,050** | **133,739** | **27,311** | **20.40%** |
| 70. Dividends and similar income | 299 | 114 | 185 | 162.30% |
| 80. Net trading income | 7,310 | 2,279 | 5,031 | 220.80% |
| 90. Net hedging gains (losses) | -1,170 | -541 | -629 | 116.30% |
| 100. Gains (losses) on disposal or repurchase of: | 26,315 | 60,539 | -34,224 | -56.50% |
| *a) loans* | *-1,915* | *-1,634* | *-281* | *17.20%* |
| *b) financial assets available for sale* | *31,500* | *51,816* | *-20,316* | *-39.20%* |
| *c) financial assets held to maturity* | | *12,428* | *-12,428* | *-100.00%* |
| *d) financial liabilities* | *-3,270* | *-2,071* | *-1,199* | *57.90%* |
| 110. Net results on financial assets and liabilities designated at fair value | -221 | 51 | -272 | n.s. |
| **120. Net interest and other banking income** | **455,118** | **423,880** | **31,238** | **7.40%** |
| 130. Net impairment adjustments to: | -144,822 | -150,048 | 5,226 | -3.50% |
| *a) loans* | *-143,429* | *-150,494* | *7,065* | *-4.70%* |
| *b) financial assets available for sale* | *-384* | | *-384* | *100.00%* |
| *d) other financial assets* | *-1,009* | *446* | *-1,455* | *n.s.* |
| **140. Net profit from financial activities** | **310,296** | **273,832** | **36,464** | **13.30%** |
| **170. Net profit from financial and insurance activities** | **310,296** | **273,832** | **36,464** | **13.30%** |
| 180. Administrative costs: | -312,904 | -262,153 | -50,751 | 19.40% |
| *a) payroll costs* | *-179,772* | *-154,663* | *-25,109* | *16.20%* |
| *b) other administrative costs* | *-133,132* | *-107,490* | *-25,642* | *23.90%* |
| 190. Net provisions for risks and charges | -4,934 | -234 | -4,700 | 0.00% |
| 200. Net adjustments to property, plant and equipment | -7,972 | -6,875 | -1,097 | 16.00% |
| 210. Net adjustments to intangible assets | -1,661 | -1,158 | -503 | 43.40% |
| 220. Other operating charges/income | 49,704 | 42,259 | 7,445 | 17.60% |
| **230. Operating costs** | **-277,767** | **-228,161** | **-49,606** | **21.70%** |
| 240. Profit (loss) from equity investments | 10,764 | 10,706 | 58 | 0.50% |
| 270. Gains (losses) on disposal of investments | 2 | 2,173 | -2,171 | -99.90% |
| **280. Profit (loss) from current operations before tax** | **43,295** | **58,550** | **-15,255** | **-26.10%** |
| 290. Income taxes on current operations | -5,697 | -19,123 | 13,426 | -70.20% |
| **300. Profit (loss) from current operations after tax** | **37,598** | **39,427** | **-1,829** | **-4.60%** |
| **320. Net profit (loss) for the period** | **37,598** | **39,427** | **-1,829** | **-4.60%** |
| 330. Net profit (loss) pertaining to minority interests | 574 | 1,174 | -600 | -51.10% |
| **340. Parent Company net profit (loss** | **38,172** | **40,601** | **-2,429** | **-6.00%** |

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Basic earnings per share (Euro) | 0.29 | 0.31 |
| Diluted earnings per share (Euro) | 0.29 | 0.31 |

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **10. Net profit (loss) for the period** | **37,598** | **39,427** |
| **Other elements of income, net of income taxes without reversal to income statement** | | |
| 20. Property, plant and equipment | - | - |
| 30. Intangible assets | - | - |
| 40.Defined-benefit pension plans | 1,235 | -2,401 |
| 50. Non-current assets and disposal groups held for sale | - | - |
| 60. Portion of the valuation reserves of the equity investments carried at equity | - | - |
| **Other elements of income, net of income taxes with reversal to income statement** | | |
| 70. Foreign investment hedges | - | - |
| 80. Exchange differences | -4,870 | 167 |
| 90. Cash-flow hedges | 63 | - |
| 100. Financial assets available for sale | -2,050 | -491 |
| 110. Non-current assets and disposal groups held for sale | - | - |
| 120. Portion of the valuation reserves of the equity investments carried at equity | -113 | 495 |
| **130. Total other elements of income (net of income taxes)** | **-5,735** | **-2,230** |
| **140. Total comprehensive income (Captions 10+130)** | **31,863** | **37,197** |
| 150. Total comprehensive income pertaining to minority interests | 101 | 1,677 |
| **160. Total consolidated comprehensive income pertaining to Parent Company** | **31,964** | **38,874** |

## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2015

| | | | | Allocation of prior year results | | Change for the year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Transactions on shareholders' equity | | | | | | | | | |
| | Balance at 31.12.2014 | Changes in opening balances | Balance at 01.01.2015 | 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 investment | Comprehensive income at 31.12.2015 | Group shareholders' equity at 31.12.2015 | Minority interests at 31.12.2015 |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 121,161 | | 121,161 | | | | | | | | | | -2,583 | | 60,840 | 57,738 |
| b) other shares | 6,865 | | 6,865 | | | | | | | | | | | | 6,865 | |
| Share premium reserve | 38,813 | | 38,813 | | | | | | | | | | -7,244 | | 16,145 | 15,424 |
| Reserves: | | | | | | | | | | | | | | | | |
| a) from profits | 642,801 | | 642,801 | 29,423 | | 406 | | | | | | 1,110 | 9,745 | | 707,634 | -24,149 |
| b) Other | 23,927 | | 23,927 | | | | | | | | | -1,316 | | | 19,026 | 3,585 |
| Valuation reserves | 27,135 | | 27,135 | | | | | | | | | | | -5,735 | 21,767 | -367 |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | -75 | | -75 | | | | | | | | | | 24 | | | -51 |
| Net profit (loss) for the period | 39,427 | | 39,427 | -29,423 | -10,004 | | | | | | | | | 37,598 | 38,172 | -574 |
| **Group shareholders' equity** | **845,627** | | **845,627** | | **-10,004** | **406** | | | | | | **-206** | **2,662** | **31,964** | **870,449** | |
| **Minority interests** | **54,427** | | **54,427** | | | | | | | | | | **-2,720** | **-101** | | **51,606** |

## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2014

| | Balance at 31.12.2013 | Changes in opening balances | Balance at 01.01.2014 | Allocation of prior year results | | Change for the year | | | | | | | | | | Group shareholders' equity at 31.12.2014 | Minority interests at 31.12.2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 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 investment | Comprehensive income at 31.12.2014 | | | |
| Share capital: | | | | | | | | | | | | | | | | | |
| a) ordinary shares | 60,940 | | 60,940 | | | | 60,221 | | | | | | | | | 60,840 | 60,321 |
| b) other shares | 6,865 | | 6,865 | | | | | | | | | | | | | 6,865 | |
| Share premium reserve | 16,145 | | 16,145 | | | | 22,668 | | | | | | | | | 16,145 | 22,668 |
| Reserves: | | | | | | | | | | | | | | | | | |
| a) from profits | 698,933 | | 698,933 | -7,822 | | -48,310 | | | | | | | | | | 672,859 | -30,058 |
| b) Other | 10,170 | | 10,170 | | | 13,350 | | | | | | 407 | | | | 20,342 | 3,585 |
| Valuation reserves | 30,620 | | 30,620 | | | -1,255 | | | | | | | | -2,230 | | 27,975 | -840 |
| Equity instruments | | | | | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | -75 | | | | | | | | | -75 |
| Net profit (loss) for the period | -4,736 | | -4,736 | 7,822 | -3,086 | | | | | | | | | 39,427 | | 40,601 | -1,174 |
| **Group shareholders' equity** | **818,716** | | **818,716** | | **-2,984** | **-9,386** | | | | | | **407** | | **38,874** | | **845,627** | |
| **Minority interests** | **221** | | **221** | | **-102** | **-26,829** | **82,889** | **-75** | | | | | | **-1,677** | | | **54,427** |

## CONSOLIDATED CASH FLOW STATEMENT

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. OPERATING ACTIVITIES** | | |
| **1. Cash generated from operations** | **301,186** | **225,196** |
| - interest received (+) | 370,965 | 349,618 |
| - interest paid (-) | (104,722) | -125,668 |
| - dividends and similar income (+) | | |
| - net commissions (+/-) | 161,441 | 134,553 |
| - payroll costs (-) | (184,138) | -158,577 |
| - net premiums received (+) | | |
| - other insurance income/expense (+/-) | | |
| - other costs (-) | (118,190) | -49,236 |
| - other revenues (+) | 133,504 | 112,059 |
| - taxation (-) | 42,326 | -37,553 |
| - costs/revenues for disposal groups, net of tax effect (+/-) | | |
| **2. Cash generated (absorbed) by financial assets** | **58,091** | **-3,584,844** |
| - financial assets held for trading | 5,628 | -13,440 |
| - financial assets designated at fair value through profit and loss | | |
| - financial assets available for sale | -4,197 | -451,964 |
| - loans to customers | 76,528 | -2,920,372 |
| - due from banks: on demand | -36,226 | 32,630 |
| - due from banks: other receivables | 29,466 | -45,097 |
| - other assets | -13,108 | -186,601 |
| **3. Cash generated (absorbed) by financial liabilities** | **-342,801** | **3,255,212** |
| - due to banks: on demand | -34,413 | 46,613 |
| - due to banks: other debts | -229,889 | 532,929 |
| - due to customers | 799,068 | 1,954,797 |
| - debt securities in issue | -875,328 | 561,549 |
| - financial liabilities held for trading | 1,512 | 2,451 |
| - financial liabilities designated at fair value through profit and loss | 1,271 | -14,991 |
| - other liabilities | -5,022 | 171,864 |
| **Net cash generated/absorbed by operating activities (A)** | **16,476** | **-104,436** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash generated by** | **530** | **185,037** |
| - sale of equity investments | | |
| - dividends collected on equity investments | 299 | 114 |
| - sale/redemption of financial assets held to maturity | | 181,568 |
| - sale of property, plant and equipment | 152 | 3,355 |
| - sale of intangible assets | | |
| - sale of lines of business | 79 | |
| **2. Cash absorbed by** | **-12,234** | **-46,891** |
| - purchase of equity investments | | -71 |
| - purchase of financial assets held to maturity | | |
| - purchase of property, plant and equipment | (10,669) | -52,768 |
| - purchase of intangible assets | -1,565 | 5,948 |
| - purchase of units of business | | |
| **Net cash generated/absorbed by investing activities (B)** | **-11,704** | **138,146** |
| **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)** | **-4,058** | **30,624** |

## RECONCILIATION

| Balance sheet Items | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Cash and cash equivalents at beginning of period** | **62,890** | **29,848** |
| Net increase (decrease) in cash and cash equivalents | -4,058 | 30,624 |
| Cash and cash equivalents: effect of change in exchange rates | 3,474 | 2,418 |
| **Cash and cash equivalents at end of period** | **62,306** | **62,890** |

# Consolidated explanatory notes

# PART A – ACCOUNTING POLICIES

## A.1 GENERAL INFORMATION

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

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation no. 1606 of 19 July 2002, the consolidated financial statements of the Banco Desio Group are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2015.

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

### Section 2 - Basis of preparation

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

For the preparation of the consolidated financial statements, reference was made to the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated on 15 December 2015. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the year.

The consolidated financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence. The accounting policies are consistent with those used for the preparation of the consolidated financial statements of the previous year.

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

The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries as of the same reporting date, adjusted - where necessary - to comply with the 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. Subsidiary companies

| 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 | 81.702 |
| 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 group related solely to the increase of the percentage of capital held by the Parent Company in Banca Popolare di Spoleto S.p.A. ("BPS") upon completion of the Contribution of Banco Desio in BPS, effective for legal purposes from 1 April 2015: as a result of this increase, the shareholding firstly came to 81.71%, but was later reduced to 81.70% on conversion into BPS ordinary shares of no. 16,905 Warrants awarded to holders of BPS ordinary shares, other than Banco Desio.

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

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

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

1. power over an investee;

2. exposure, or rights, to variable returns from its involvement with the investee;

3. ability to use its power over the investee to affect the amount of the investor's returns.

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

the purpose and design of the entity;

the relevant activities, that is, the activities that significantly affect the entity's returns and how they are governed;

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

the Group's exposure to variability of returns.

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

The extraordinary contribution of the business unit of Banco di Desio e della Brianza S.p.A. to Banca Popolare di Spoleto and the sale of the Milan branch of Banca Popolare di Spoleto to Banco di Desio e della Brianza S.p.A. have had a neutral effect on the Consolidated financial statements at 31 December 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. | 18.298 | - |
| 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. | 4,012,450 | 34,891 | 365,360 | 52,333 | 3,276 | 256,279 | 93,628 | 150,082 | -91,762 | 5,920 | 6,400 | | 6,400 | -4,905 | 1,495 |
| Rovere S.A. | 2,496 | | | 4 | | 1,178 | 2 | 1,718 | -913 | 805 | 628 | | 628 | | 628 |

### 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 consolidated Report on Operations.

## Section 5 - Other aspects

***IFRS 9 - Financial instruments***

On 24 July 2014, the IASB issued *IFRS 9 - Financial Instruments*, thus completing the reform of IAS 39 that was divided into three phases: "Classification and measurement", "Impairment" and "Hedge accounting". The new standard has to be applied to financial statements from 1 January 2018 onwards; however, this principle still has to be approved by the European Commission. The European Financial Reporting Advisory Group (EFRAG) has already issued a favourable opinion dated 15 September 2015.

The standard introduces new requirements for the classification and measurement of financial assets and liabilities. Moreover, with reference to the impairment model, the new standard requires that the estimate of loan losses is based on the model of "expected losses" (as opposed to "incurred losses") using information that has support and available without unreasonable charges or efforts that include historical, current and future data. The principle provides, in particular, that:

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

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies.

With reference to the first application of the new accounting standards, the Group is currently carrying out an analysis of the interventions to be made on the procedures and IT/management systems with the assistance of the provider of outsourced IT procedures (Cedacri): at present, and until the Group has completed the above analysis, it is not possible to give a reasonable estimate of the impact that this will have. In particular, this project is focusing on defining the scope of activities to which the new standard will apply, the identification and association of the correct bucket to financial instruments and the calculation of the discounted long-term expected loss (known as the "lifetime expected credit loss") for the instruments covered by bucket no. 2, in order to define the appropriate changes to be made to Cedacri's current IT and management architecture.

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

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

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

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

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

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

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

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

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

The contributions were communicated by the competent authorities (the Bank of Italy as the resolution authority and the FITD as the authority for the protection of guaranteed deposits) in November): charges relating to the ordinary and extraordinary contributions made by Banco di Desio e della Brianza and Banca Popolare di Spoleto have been recognised in the income statement under "150 b) Other administrative costs" in accordance with the instructions contained in the Bank of Italy's communication of 19 January 2016.

***Contribution to the Solidarity Fund***

The 2016 Stability Law provides for the establishment of a solidarity fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara.

The Solidarity Fund is financed on the basis of the financial needs related to the services performed by the Interbank Deposit Protection Fund (IDPF) up to a maximum of Euro 100 million. Pending definition of the organisational and operational aspects of the system with the enactment of special ministerial decrees, the Banco Desio Group considered the probability of enforcement to be high (more likely than not) and has therefore made a risk provision for a probable liability in compliance with IAS 37 - *Provisions, contingent liabilities and contingent assets.*

***Comparability of consolidated financial statements***

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

In view of the fact that the subsidiary Banca Popolare di Spoleto S.p.A. (BPS) entered the scope of consolidation with effect from 1 August 2014, it should be noted that the figures in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated cash flow statement at 31 December 2015 are not comparable on a consistent basis with those of the same period for the last year because the latter include BPS's contribution for just five months.

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 31 December 2015 for the assets and liabilities of Rovere S.A. and Istifid S.p.A., which are currently being sold.

***Domestic tax group election***

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

***Audit***

These consolidated financial statements have been audited by Deloitte & Touche S.p.A., pursuant to D.Lgs. no. 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

## A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

### Financial assets held for trading

***Recognition***

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

***Classification***

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

***Measurement***

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date (*fair value Level 1*).
Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by using valuation techniques (*fair value Level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).

***Derecognition***

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

***Recognition of items affecting the income statement***

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

### Financial assets available for sale

***Recognition***

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

***Classification***

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

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

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

***Measurement***

Subsequent to initial recognition, the price component of financial assets available for sale is measured at *fair value*, whereas the interest component is calculated at the actual rate of return.
For the purposes of determining *fair value*, the same criteria as for assets held for trading are applied.

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

***Derecognition***

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

***Recognition of items affecting the income statement***

The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.
On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.
If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.
In the case of assets available for sale with *fair value* hedges, the change in *fair value* related to the risk being hedged is recognised in the income statement under "Net hedging gains (losses)", in the same way as the changes in *fair value* of the hedging instrument, while changes in *fair value* not related to the risk being hedged are recorded in equity to offset the valuation reserves.
In the presence of cash flow hedges of assets available for sale, the *fair value* changes are recorded under shareholders' equity; please refer to the section on "Hedging transactions" for a description of the gains and losses on the hedging instrument.

## Loans and receivables

***Recognition***

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

***Classification***

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.
They also include receivables from finance lease transactions, repurchase agreements with an obligation to resell and receivables sold to the SPV which do not meet the requirements of IAS 39 for derecognition (please see the section entitled "Securitisations" in "Other information" in this Part A).
Transfers from Financial assets available for sale and Financial assets held for trading are only allowed in particular circumstances, as specified in IAS 39.

***Measurement***

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.
The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.

The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.
Loans are assessed periodically and split between “performing” and “non-performing”, depending on the degree of impairment of the loan.
The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.
Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.
Non-performing loans include the various categories of non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.
The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done by applying the criteria laid down in the Lending Policies, taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor’s business sector.
Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (*Loss Given Default* - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality.
The expected loss is an estimation of the latent loss at the reference date.
Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.
Receivables for interest on arrears accrued on non-performing assets are only recorded in the financial statements once it has been collected.
The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.
The securities held in the “Loans and receivables” portfolio are evaluated periodically to determine whether there is objective evidence of any impairment. According to the provisions of paragraph AG84 of IAS 39, such impairment is measured as the difference between the carrying amount of the asset and the *fair value* of the instrument measured using an observable market price.
The *fair value* of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term.
Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.
The *fair value* is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the “*risk free”* rate, but also a specific *credit spread* for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2).
The credit exposures subject to fair value hedging after initial recognition are measured at fair value. If the hedging relationship is ineffective, the loans are again valued at amortised cost. The difference between the fair value and amortised cost recognized on the last date on which the hedging relationship was effective is recognised in the income statement and amortised over the residual life of the loan.

***Derecognition***

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

***Recognition of items affecting the income statement***

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.
Interest on arrears is only recorded in the income statement when collected.
The interest that accrues over time as an effect of discounting non-performing loans is recognised in the income statement under write-backs.
The effects of analytical and general assessments are recognised in the income statement.
The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.

In the case of loans acquired through business combinations, any higher value recorded in the consolidated financial statements on initial recognition is released through the income statement over the life of the loan, based on the repayment plan, or in full in the year that the loan is repaid.
Loans subject to fair value hedges, are measured at fair value and changes in value are recognised in the income statement under “net hedging gains (losses)”, in the same way as the changes in fair value of the hedging instrument.

## Hedging transactions

***Recognition***

Upon initial recognition of derivatives, inclusive of hedging instruments, they are measured at *fair value.*
The recognition of hedging transactions assumes:
- the involvement of external counterparties;
- a specific designation and identification of financial hedging and hedged instruments used for the transaction;
- definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
- passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
- preparation of formal documentation of the hedging relationship.

***Classification***

Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.
The type of hedge used may be:
- Fair Value Hedges (microhedging of *fair value*): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);
- Cash-Fflow Hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

***Measurement***

The *fair value* of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models); with specific reference to OTC hedging derivatives, the model applied is the *Credit Value Adjustment* and *Debit Value Adjustment.*
A hedging transaction is defined as effective if the changes in *fair value* (or future cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.
Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.
If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

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

The contra-entries to changes in the *fair value* of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.This provision applies even when the hedged item is measured at cost.
Such offsetting is booked through the recognition in the income statement under item 90 “Net hedging gains (losses)” of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.

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

The gain or loss on the hedging instrument has be treated as follows:
- the share of the gain or loss defined as effective is recorded in equity as a contra-entry to the valuation reserves;
- the ineffective portion of the hedge is booked to the income statement.

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

***Derecognition***

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

## Equity investments

***Recognition***

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

***Classification***

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

***Measurement***

For measurement subsequent to initial recognition the equity method is applied, whereby the initial carrying value is adjusted to reflect the share of the associate's equity pertaining to the Parent Company.
At each balance sheet date, tests are carried out to see if there is objective evidence that the investment has suffered an impairment loss (impairment test).
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 derecognised upon disposal.

### Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a manner consistent with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.
Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets".
Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".
In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "Current tax assets".
If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).
Lastly, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group.

### Provision for termination indemnities

***Measurement***

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

***Recognition of items affecting the income statement***

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

## Provisions for risks and charges - Other provisions

***Classification***

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

***Measurement***

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

***Recognition of items affecting the income statement***

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

## Debts and debt securities in issue

***Recognition***

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

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

***Measurement and recognition of items affecting the income statement***

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.
Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.
Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.
If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.
Securities issued are shown net of any repurchases.
Solely for disclosure purposes, the fair value is determined of debt and securities issued; for issued debt and certificates of deposit, the fair value substantially equates to book value, which represents a reasonable approximation thereof (level 3). For bonds issued by Group companies, the fair value is determined by using valuation models of estimating and discounting future cash flows (level 2).

***Derecognition***

Financial liabilities are derecognised on disposal, expiration or termination.
The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.

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

### Financial liabilities held for trading

#### *Recognition and classification*

Liabilities held for trading are recorded at *fair value*.
The financial instruments included in this caption are recognised on the subscription date or on the date of issue at an amount equal to the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument concerned.
This caption includes, in particular, trading derivatives with a negative *fair value*.

#### *Measurement and recognition of items affecting the income statement*

Financial liabilities held for trading are measured at *fair value*, booking the effects to the income statement.
Derivative instruments traded in active markets are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (*Level 1*).
Derivative instruments that are not traded in active markets are priced by using valuation techniques (Level 2 or Level 3 - based on the significance of unobservable inputs used in the valuation models).

#### *Derecognition*

Financial liabilities are derecognised on disposal, expiration or termination.

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

#### *Recognition*

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

#### *Classification*

This caption includes financial liabilities designated at *fair value* through profit and loss.
In particular, this caption refers to the application of the *fair value option* for financial liabilities subject to “natural hedging”, designed to achieve a better balance of the effects of measuring financial assets and liabilities on the income statement.
Financial liabilities may be designated at *fair value* through the income statement in the following cases:

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

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

#### *Measurement and recognition of items affecting the income statement*

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

#### *Derecognition*

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

### Currency transactions

#### *Recognition*

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

#### *Measurement*

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

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

***Recognition of items affecting the income statement***

For monetary items, the effect of the measurements is recognised in the income statement.
For non-monetary items with recognition of gains and losses in the income statement, exchange differences are also recognised in the income statement; if gains and losses are recognised in shareholders' equity, any exchange differences are also booked to equity.
In accordance with International Standard IAS 21 the cumulative exchange differences on foreign investments may be booked in the consolidated financial statements and to the income statement in the event of disposal of the investment.
In particular, as provided by paragraph 49 of IAS 21 a foreign investment may be totally or partially disposed of through sale, liquidation, repayment of share capital or abandonment of all or part of it. Substantial conclusion of the liquidation of an investment in a foreign operation therefore involves reclassification of the exchange differences identified from equity to net profit (loss) for the period.

## Other information

***Valuation reserves***

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

***Recognition of costs and revenues***

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

  Note that interest income (or interest expense) in the consolidated financial statements also includes amortisation for the year of the *fair value* differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (Caption 130. Net impairment adjustments to loans and receivables):
– default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
– dividends are recognised in the income statement when distribution has been approved;
– commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees 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 introduced by IFRS 10, it is included within the Group's scope of consolidation.
According to the breakdown by type, loans and receivables include loans subject to securitisations subsequent to 1 January 2004, which do not have the requisites under IAS 39 for elimination from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.
Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the Bank, is allocated to amounts due to customers.
Both assets and liabilities are measured at amortised cost and the related interest is recorded in the income statement.
[1)]Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.

## A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

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

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

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

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

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

The following table shows the book values and *fair values* at 31 December 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 the Bank actually recorded on such instruments during the reporting period.

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

*amounts in thousands of Euro*

| Type of financial instrument | Source portfolio | Destination portfolio | Book value at 31.12.2015 | Fair value at 31.12.2015 | 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 | 6,243 | 6,268 | 144 | -168 | | -486 |
| Debt securities | HFT | L&R - customers | 0 | 0 | 0 | 40 | | 40 |
| Debt securities | AFS | L&R - banks | 2,727 | 2,957 | -132 | 252 | | 154 |
| Debt securities | AFS | L&R - customers | 1,079 | 1,121 | 11 | 27 | | 25 |
| **Total** | | | **10,049** | **10,346** | **22** | **151** | **0** | **-266** |

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

## A.4 INFORMATION ON FAIR VALUE

### Qualitative information

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

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

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

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

The *fair value* hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (*Level 1* inputs) and the lowest priority to unobservable inputs (*Level 2* and *3* inputs). The *fair value* hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure *fair value*.

A *fair value* measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the *fair value* hierarchy within which those inputs are categorised.

***Fair value measurement with use of level 1 inputs***

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

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

The fundamental elements are the following:

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

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

### A.4.1 Levels of *fair value* 2 and 3: valuation techniques and inputs used

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

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

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

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

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

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

On the other hand, as regards OTC derivatives with a negative MTM, the model applied is the Debit Value Adjustment (DVA), with the aim of highlighting, for each legal entity of the Group, the impact of its own creditworthiness.

The model applies the same formula of discounting the CVA to the negative value (MTM) of the derivative including the credit spread of each legal entity.

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

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

## A.4.2 Process and sensitivity of valuations

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

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

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

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

## A.4.3 Fair value hierarchy

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

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

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

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

## A.4.4 Other information

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

## Quantitative information

## A.4.5 Fair value hierarchy

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

| Financial assets/liabilities designated at fair value | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 14 | 13,558 | 2,466 | 1,147 | 15,044 | 2,536 |
| 2. Financial assets designated at fair value through profit and loss | | | | | | |
| 3. Financial assets available for sale | 1,695,096 | 162,184 | 23,851 | 1,773,442 | 85,577 | 18,940 |
| 4. Hedging derivatives | | 4,601 | | | 8,372 | |
| 5. Property, plant and equipment | | | | | | |
| 6. Intangible assets | | | | | | |
| **Total** | **1,695,110** | **180,343** | **26,317** | **1,774,589** | **108,993** | **21,476** |
| 1. Financial liabilities held for trading | | 3,132 | 2,016 | | 1,175 | 2,084 |
| 2. Financial liabilities designated at fair value through profit and loss | | 22,828 | | | 23,626 | |
| 3. Hedging derivatives | | 24,758 | | | 6,717 | |
| **Total** | | **50,718** | **2,016** | | **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* (1.38% compared with 1.13% at end-2014). These investments consist primarily of non-controlling interests classified as "Financial assets available for sale".

At 31 December 2015, the impact of applying the Credit Value Adjustment to derivatives with a positive mark-to-market amounts to 5 thousand euro (relating to trading derivatives); as regards instruments with a negative MTM, the impact of applying the Debit Value Adjustment to derivatives amounts to 3 thousand euro on trading 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 |
|---|---|---|---|---|---|---|
| **1. Opening balance** | **2,536** | | **18,939** | | | |
| **2. Increases** | **2,073** | | **7,565** | | | |
| 2.1. Purchases | 6 | | 5,400 | | | |
| 2.2. Profits posted to: | | | | | | |
| 2.2.1. Income statement | 2,067 | | | | | |
| of which: capital gains | 2,066 | | | | | |
| 2.2.2. Shareholders' equity | | | | | | |
| 2.3. Transfers from other levels | | | | | | |
| 2.4. Other increases | | | 2,165 | | | |
| **3. Decreases** | **2,143** | | **2,653** | | | |
| 3.1. Sales | 5 | | 2,428 | | | |
| 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 | | | 98 | | | |
| 3.4. Transfers to other levels | | | | | | |
| 3.5. Other decreases | 2 | | 120 | | | |
| **4. Closing balance** | **2,466** | | **23,851** | | | |

**A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (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** | 2,016 | | |
| 2.1. Issues | | | |
| 2.2. Losses posted to: | | | |
| 2.2.1. Income statement | 2,016 | | |
| *of which: Capital losses* | *2,016* | | |
| 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** | 2,016 | | |

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

| Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets held to maturity | | | | | | | | |
| 2. Due from banks | 292,992 | | 10,138 | 283,019 | 288,282 | | 4,520 | 283,498 |
| 3. Loans to customers | 9,386,311 | | 4,755,853 | 4,867,751 | 9,666,900 | | 4,027,996 | 5,947,204 |
| 4. Investment property | 1,171 | | | 1,047 | 1,188 | | | 1,335 |
| 5. Non-current assets and disposal groups held for sale | 4,967 | | | | | | | |
| **Total** | **9,685,441** | | **4,765,991** | **5,515,817** | **9,956,370** | | **4,032,516** | **6,232,037** |
| 1. Due to banks | 753,115 | | | 753,115 | 1,017,467 | | | 1,017,467 |
| 2. Due to customers | 8,244,110 | | | 8,244,110 | 7,444,025 | | | 7,444,025 |
| 3. Debt securities in issue | 1,918,104 | | 1,742,261 | 167,748 | 2,798,752 | | 2,104,030 | 690,435 |
| 4. Liabilities associated with assets held for sale | 754 | | | | | | | |
| **Total** | **10,916,083** | | **1,742,261** | **9,164,973** | **11,260,244** | | **2,104,030** | **9,151,927** |

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

## A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

IAS 39 requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value.

If a difference arises (so-called "day one profit/loss") between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

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

# PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

## ASSETS

## SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

### 1.1 Cash and cash equivalents: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) Cash | 62,306 | 62,890 |
| b) Demand deposits with central banks | | |
| **Total** | **62,306** | **62,890** |

## SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

### 2.1 Financial assets held for trading: breakdown

| Captions/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | 3 | 2,865 | | 6 | 7,279 | |
| *1.1 Structured securities* | | 1 | | | | |
| *1.2 Other debt securities* | 3 | 2,864 | | 6 | 7,279 | |
| 2. Equity instruments | | | 400 | | | 400 |
| *3. Mutual funds* | | | | 1,105 | | |
| 4. Loans | | | | | | |
| *4.1 Repurchase agreements* | | | | | | |
| *4.2 Other* | | | | | | |
| **Total A** | **3** | **2,865** | **400** | **1,111** | **7,279** | **400** |
| **B. Derivatives:** | | | | | | |
| 1. Financial derivatives: | 11 | 10,693 | 2,066 | 36 | 7,704 | 2,136 |
| *1.1 for trading* | *11* | *9,698* | *2,066* | *36* | *6,365* | *2,136* |
| *1.2 connected with the fair value option* | | *995* | | | *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** | **11** | **10,693** | **2,066** | **36** | **7,765** | **2,136** |
| **Total (A+B)** | **14** | **13,558** | **2,466** | **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 for which the *fair value option* has been exercised consist of derivatives operationally linked to bond issues for which the Bank exercised the "*fair value option*".

The policy adopted for the categorisation of financial instruments within the three levels of the *fair value* hierarchy is disclosed in the previous section "A.4 Information on *fair value*" in Part A "Accounting policies" of the explanatory notes.
All financial instruments included in financial assets held for trading are measured at *fair value*.

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Cash assets** | | |
| **1. Debt securities** | **2,868** | **7,285** |
| *a) Government and central banks* | *1,402* | *373* |
| *b) Other public entities* | | |
| *c) Banks* | *1,465* | *6,906* |
| *d) Other issuers* | *1* | *6* |
| **2. Equity instruments** | **400** | **400** |
| a) Banks | | |
| b) Other issuers: | 400 | 400 |
| *- insurance companies* | | |
| *- financial companies* | | |
| *- non-financial companies* | *400* | *400* |
| *- other* | | |
| **3. Mutual funds** | | **1,105** |
| **4. Loans** | | |
| *a) Government and central banks* | | |
| *b) Other public entities* | | |
| *c) Banks* | | |
| *d) Other parties* | | |
| **Total A** | **3,268** | **8,790** |
| **B. Derivatives** | | |
| a) Banks | 11,072 | 8,215 |
| *- Fair value* | *11,072* | 8,215 |
| b) Customers | 1,698 | 1,722 |
| *- Fair value* | *1,698* | 1,722 |
| **Total B** | **12,770** | **9,937** |
| **Total (A+B)** | **16,038** | **18,727** |

## SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40

### 4.1 Financial assets available for sale: breakdown

| Captions/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Debt securities | 1,627,130 | 162,184 | | 1,733,032 | 85,577 | 170 |
| *1.1 Structured securities* | | *7,651* | | | *6,875* | |
| *1.2 Other debt securities* | *1,627,130* | *154,533* | | *1,733,032* | *78,702* | |
| 2. Equity instruments | 203 | | 13,677 | 140 | | 14,068 |
| *2.1 Valued at fair value* | *203* | | | *140* | | *4,895* |
| *2.2 Valued at cost* | | | *13,677* | | | *9,173* |
| 3. Mutual funds | 67,763 | | 10,174 | 40,270 | | 4,872 |
| 4. Loans | | | | | | |
| **Total** | **1,695,096** | **162,184** | **23,851** | **1,773,442** | **85,577** | **18,940** |

Caption "Financial assets available for sale" comprises:

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

Debt securities include securities associated with repurchase agreements.

### Mutual funds: breakdown by main category

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Equity funds | 3,315 | |
| Bond funds | 30,948 | 20,221 |
| Flexible funds | 33,501 | 20,049 |
| Hedge funds | | |
| Closed-ended real estate funds | 10,173 | 4,872 |
| **Total** | **77,937** | **45,142** |

Note that properties confiscated under finance leases were transferred during the year to a closed real estate fund, resulting in the allocation of units of the fund for a total of 5.4 million euro.

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Debt securities** | **1,789,314** | **1,818,609** |
| a) Government and central banks | 1,710,974 | 1,739,779 |
| b) Other public entities | | |
| c) Banks | 72,872 | 77,667 |
| d) Other issuers | 5,468 | 1,163 |
| **2. Equity instruments** | **13,880** | **14,208** |
| a) Banks | 203 | 303 |
| b) Other issuers: | 13,677 | 13,905 |
| - *insurance companies* | | |
| - *financial companies* | *3,094* | *3,128* |
| - *non-financial companies* | *10,403* | *10,477* |
| - *other* | *180* | *300* |
| **3. Mutual funds** | **77,937** | **45,142** |
| **4. Loans** | | |
| a) Government and central banks | | |
| b) Other public entities | | |
| c) Banks | | |
| d) Other parties | | |
| **Total** | **1,881,131** | **1,877,959** |

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Financial assets with specific fair value hedges** | **121,479** | |
| a) interest rate risk | 121,479 | |
| b) exchange rate risk | | |
| c) credit risk | | |
| d) more risks | | |
| **2. Financial assets with specific cash flow hedges** | | |
| a) interest rate risk | | |
| b) exchange rate risk | | |
| c) other | | |
| **Total** | **121,479** | |

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

### Impairment tests of financial assets available for sale

As required by applicable accounting standards (IFRS), at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable. The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of "Part A - Accounting policies" of these Explanatory Notes.

## SECTION 6 - DUE FROM BANKS - CAPTION 60

### 6.1 Due from banks: breakdown

| Type of transaction/Amounts | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **A. Due from central banks** | **97,807** | | | **97,807** | **81,319** | | | 81,319 |
| 1. Restricted deposits | | | | | | | | |
| 2. Reserve requirement | 97,807 | | | | 81,319 | | | |
| 3. Repurchase agreements | | | | | | | | |
| 4. Other | | | | | | | | |
| **B. Due from banks** | **195,185** | | | | **206,963** | | | |
| 1. Loans | 185,212 | | | 185,21 | 152,921 | | | 152,72 |
| 1.1 Current accounts and demand deposits | 115,663 | | | | 96,613 | | | |
| 1.2 Restricted deposits | 68,409 | | | | 56,276 | | | |
| 1.2.1 Mandatory reserve requirement met indirectly | | | | | | | | |
| 1.2.2 Other | 68,409 | | | | 56,276 | | | |
| 1.3 Other loans: | 1,140 | | | | 32 | | | |
| - Repurchase agreements | | | | | | | | |
| - Finance leases | | | | | | | | |
| - Other | 1,140 | | | | 32 | | | |
| 2. Debt securities | 9,973 | | 10,138 | | 54,042 | | 4,520 | 49,456 |
| 2.1 Structured securities | 3,730 | | | | 25,013 | | | |
| 2.2 Other debt securities | 6,243 | | | | 29,029 | | | |
| **Total** | **292,992** | | **10,138** | **283,02** | **288,282** | | **4,520** | **283,5** |

**Key**
FV = fair value
BV = book value

The table is shown net of the loans pertaining to Rovere S.A. for Euro 1,882 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 Bank's need of contingent liquidity.

Banco Desio Brianza's commitment to maintain the reserve requirement amounts to Euro 85.3 million at 31 December 2015 (Euro 82 million at the prior year end).

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

### 6.2 Due from banks with specific hedges

At the reporting dates, Banco Desio did not have any amounts due to banks with specific hedges.

### 6.3 Due from banks: finance leases

At the reference date, Banco Desio did not have any amounts due from banks linked to finance leases.

## SECTION 7 - LOANS TO CUSTOMERS - CAPTION 70

### 7.1 Loans to customers: breakdown

| Type of transaction/Amounts | 31.12.2015 | | | | | | 31.12.2015 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | Performing loans | Non-performing | | L1 | L2 | L3 | Performing loans | Non-performing | | L1 | L2 | L3 |
| | | Purchased | Other | | | | | Purchased | Other | | | |
| Loans | 8,480,676 | | 904,556 | | 4,754,732 | 4,867,751 | 8,800,885 | | 853,966 | | 4,016,035 | 5,947,204 |
| 1. Current accounts | 1,628,580 | | 189,445 | | | | 1,696,722 | | 196,029 | | | |
| 2. Repurchase agreements | | | | | | | 198,361 | | | | | |
| 3. Mortgage loans | 4,878,004 | | 493,963 | | | | 4,870,445 | | 448,751 | | | |
| 4. Credit cards, personal loans and assignments of one-fifth of salary | 554,938 | | 6,082 | | | | 538,125 | | 7,043 | | | |
| 5. Finance leases | 353,76 | | 24,318 | | | | 417,456 | | 29,065 | | | |
| 6. Factoring | 27,051 | | 355 | | | | 22,776 | | 373 | | | |
| 7. Other loans | 1,038,343 | | 190,393 | | | | 1,057,000 | | 172,705 | | | |
| Debt securities | 1,079 | | | | 1,121 | | 12,049 | | | | 11,961 | |
| 8. Structured securities | 1,079 | | | | | | | | | | | |
| 9. Other debt securities | | | | | | | 12,049 | | | | | |
| **Total** | **8,481,755** | | **904,556** | | **4,755,853** | **4,867,751** | **4,867,751** | **8,812,934** | **853,966** | | **4,027,996** | **5,947,204** |

Gross loans totalled Euro 10,262,262 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 adjustments amounted to Euro 875,951 thousand (against Euro 849,265 thousand at the end of last year).

"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, in addition to the disclosures made in the Report on operations, reference should be made to "Section E" of these explanatory notes.

### 7.2 Loans to customers: breakdown by borrower/issuer

| Type of transaction/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Performing loans | Non-performing loans | | Performing loans | Non-performing loans | |
| | | Purchased | Other | | Purchased | Other |
| **1. Debt securities** | **1,079** | | | **12,049** | | |
| a) Governments | | | | | | |
| b) Other public entities | | | | | | |
| c) Other issuers | 1,079 | | | 12,049 | | |
| - non-financial companies | | | | | | |
| - financial companies | 1,079 | | | 12,049 | | |
| - insurance companies | | | | | | |
| - other | | | | | | |
| **2. Loans to:** | **8,480,676** | | **904,556** | **8,800,885** | | **853,966** |
| a) Governments | 24,171 | | | 25,118 | | |
| b) Other public entities | 3,816 | | 97 | 10,072 | | 97 |
| c) Other parties | 8,452,689 | | 904,459 | 8,765,695 | | 853,869 |
| - non-financial companies | 5,568,401 | | 683,062 | 5,574,286 | | 654,887 |
| - financial companies | 131,305 | | 868 | 325,69 | | 1,216 |
| - insurance companies | 2,823 | | | 5,100 | | |
| - other | 2,750,160 | | 220,529 | 2,860,619 | | 197,766 |
| **Total** | **8,481,755** | | **904,556** | **8,812,934** | | **853,966** |

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Loans with specific fair value hedges | 15,130 | 31,129 |
| a) Interest rate risk | 15,130 | 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** | **15,130** | **31,129** |

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

### 7.4 Finance leases

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

| Type of transaction | 31.12.2015 Gross investment | 31.12.2015 Deferred profit | 31.12.2015 Net investment | 31.12.2015 Unsecured residual value (purchase option) | 31.12.2014 Gross investment | 31.12.2014 Deferred profit | 31.12.2014 Net investment | 31.12.2014 Unsecured residual value (purchase option) |
|---|---|---|---|---|---|---|---|---|
| Finance lease | 450,642 | -77,400 | 373,242 | 59,307 | 533,63 | -95,289 | 438,341 | 67,482 |
| - of which leaseback agreements | 28,717 | -5,452 | 23,265 | 4,667 | 32,767 | -6,475 | 26,292 | 5,196 |
| **Total** | **450,642** | **-77,400** | **373,242** | **59,307** | **533,63** | **-95,289** | **38,341** | **67,482** |

| Falling due | 31.12.2015 Gross investment | 31.12.2015 Deferred profit | 31.12.2015 Net investment | 31.12.2014 Gross investment | 31.12.2014 Deferred profit | 31.12.2014 Net investment |
|---|---|---|---|---|---|---|
| - Within one year | 8,992 | -164 | 8,828 | 13,008 | -223 | 12,785 |
| - Between one and five years | 129,335 | -8,670 | 120,665 | 159,661 | -11,797 | 147,864 |
| - Beyond five years | 312,315 | -68,566 | 243,749 | 360,961 | -83,269 | 277,692 |
| **Total** | **450,642** | **-77,400** | **373,242** | **533,63** | **-95,289** | **438,341** |

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

## SECTION 8 - HEDGING DERIVATIVES - CAPTION 80

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

| Type of transaction/Amounts | 31.12.2015 FV Level 1 | 31.12.2015 FV Level 2 | 31.12.2015 FV Level 3 | 31.12.2015 NV | 31.12.2014 FV Level 1 | 31.12.2014 FV Level 2 | 31.12.2014 FV Level 3 | 31.12.2014 NV |
|---|---|---|---|---|---|---|---|---|
| **A) Financial derivatives** | | **4,601** | | **133,376** | | **8,372** | | **107,483** |
| 1) Fair value | | 4,149 | | 83,376 | | 8,372 | | 107,483 |
| 2) Cash flows | | 452 | | 50,000 | | | | |
| 3) Foreign investments | | | | | | | | |
| **B) Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **4,601** | | **133,376** | | **8,372** | | **107,483** |

**Key**
NV = notional value
FV = fair value

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

| Operation/Type of hedge | Fair value | | | | | | Cash flows | | Foreign investments |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | interest rate risk | exchange rate risk | credit risk | price risk | other risks | | | | |
| 1. Financial assets available for sale | | | | | | | | | |
| 2. Loans and receivables | 25 | | | | | | | | |
| 3. Financial assets held to maturity | | | | | | | | | |
| 4. Portfolio | | | | | | | | | |
| 5. Other transactions | | | | | | | | | |
| **Total assets** | **25** | | | | | | | | |
| 1. Financial liabilities | 4,124 | | | | | | 452 | | |
| 2. Portfolio | | | | | | | | | |
| **Total liabilities** | **4,124** | | | | | | **452** | | |
| 1. Expected transactions | | | | | | | | | |
| 2. Financial assets and liabilities portfolio | | | | | | | | | |

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".
The specific fair value hedges on financial liabilities relate exclusively to hedges on bonds issued by Banco Desio and the subsidiary Banca Popolare di Spoleto.
The cash flow hedges of financial liabilities are also to hedge bonds issued by Banco Desio.
If prospective and retrospective assessments performed during the year in compliance with the requirements of IAS 39 did not confirm the effectiveness of the hedging relationship, they were interrupted and the related derivatives classified as trading instruments.

## SECTION 9 - ADJUSTMENT TO FINANCIAL ASSETS WITH GENERIC HEDGE - CAPTION 90

### 9.1 Adjustment of hedged assets: breakdown by hedged portfolio

| Adjustment of hedged assets/Members of the Group | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Positive adjustments** | **1,408** | **2,478** |
| 1.1 of specific portfolios: | 1,408 | 2,478 |
| *a) loans* | *1,408* | *2,478* |
| *b) financial assets available for sale* | | |
| 1.2 total | | |
| **2. Negative adjustments** | | |
| 2.1 of specific portfolios: | | |
| *a) loans and receivables* | | |
| *b) financial assets available for sale* | | |
| 2.2 total | | |
| **Total** | **1,408** | **2,478** |

The adjustment to financial assets with generic hedges ("macro-hedging") refers to changes in fair value due to fluctuations in interest rates on portfolios of similar assets from the point of view of the financial profile and the underlying risks identified by the Group for the purpose of designating the different fair value macro-hedging relationships for interest rate risk.
At 31 December 2015, there are portfolios of fixed-rate mortgages and loans to customers subject to macro-hedging.

### 9.2 Assets with generic hedges for interest rate risk

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Loans and receivables | 7,819 | 9,970 |
| 2. Financial assets available for sale | | |
| 3. Portfolio | | |
| **Total** | **7,819** | **9,970** |

The total nominal value of the assets (fixed-rate mortgages and loans to customers) with generic interest rate risk hedges amounts to Euro 7,819 thousand, with maturities between 2021 and 2037.
At the end of the previous year, these mortgages and loans amounted to Euro 9,970 thousand. It is noted that during the year one of the general hedging operations was interrupted because of failure to meet the requirements for effectiveness.

## SECTION 10 - 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 | 35.925 | 35.925 |

**Key**
(1) Type of relationship:
4 = other forms of control.
(*) Recorded under caption "150. Non-current assets and disposal groups held for sale".

### 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. | 13,261 | - | 722 |
| **Total** | **13,261** | **-** | **722** |

## 10.3 Significant equity investments: accounting information

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

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

Note that as regards the nature of the Banking Group's relationships with the associate Chiara Assicurazioni, they are explained in the agreement for the distribution of insurance products entered into with the insurance company.

**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)** | **2,471** | **12,702** | **8,340** | **5,210** | **294** | **-** | **294** | **-** | **294** |

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

Please note that the disclosure contained in the table relate to Investments reclassified to caption 150 "Non-current assets and disposal groups held for sale".

### 10.5 Equity investments: changes in the year

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Opening balance** | **14,806** | **13,969** |
| **B. Increases** | **1,699** | **1,152** |
| B.1 Purchases | - | 71 |
| B.2 Write-backs | - | - |
| B.3 Revaluations | 1,699 | 1,060 |
| B.4 Other changes | - | 21 |
| **C. Decreases** | **3,244** | **315** |
| C.1 Sales | - | - |
| C.2 Write-downs | - | - |
| C.3 Other changes | 3,244 | 315 |
| **D. Closing balance** | **13,261** | **14,806** |
| **E. Total revaluations** | **1,054** | **1,499** |
| **F. Total write-downs** | **-** | **-** |

Caption "B.3 Revaluations" refers to the net results of the two associates and the consequent increase in the value of the portion of equity held in them. In particular, this increase refers:

- for Euro 997 thousand to Istfid S.p.A.;
- for Euro 702 thousand to Chiara Assicurazioni S.p.A..

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

### Impairment testing

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at 31 December 2015.

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 recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a Discounted Cash Flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

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

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

a) <u>Criterion to estimate the recoverable amount (Impairment)</u>
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).

<u>"Explicit" time period for the determination of future cash flows</u>
The time horizon for impairment testing of the associate Chiara Assicurazioni S.p.a. is the period covered by the 2013-2019 business development plan backed by contractual arrangements for the period 2013-2022 executed with Helvetia Group, extended to 2020, and appropriately revised at the reporting date to take account of more recent data provided by 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 / 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 Equity 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 | Plan flows | Capital ratio |
|---|---|---|---|---|---|---|---|
| Chiara Assicurazioni S.p.A. | DDM | 2013-2022 Development plan backed by contractual agreements updated for the 2016/2020 period. | 8.97% | 9.36% | 1.50% | 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 writedown was needed of the aforementioned equity investments.
It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis
Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.
The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

| Equity investments | SCR multiplier (1) | % decrease in Net future Results (RN) (*) | Increase in percentage points of discount rate used for future cash flows (FCFE) |
|---|---|---|---|
| Chiara Assicurazioni SpA | 120% | 33.37% | 430 |
| | 150% | 23.60% | 267 |

(1) SCR = Sensitivity measured on the basis of two different scenarios for capital allocation: of 120% and of 150% of the SCR

(*) This parameter has replaced the "exogenous" parameter of the "reduction of the growth rate over the "g" Plan", used in previous sensitivity analyses, in order to have two sensitivity parameters, one of which "endogenous", given by the "% decrease in Net future Results" and an "exogenous" one given by the "increase in the discount rate of future cash flows", instead of two "exogenous" parameters.

### 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 equity investment equal to or higher than 20%, the participant will be responsible for demonstrating the absence of any significant influence. Conversely, if the equity investment 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;

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 S.p.A. and Istifid S.p.A., are as follows:

- Chiara Assicurazioni S.p.A.: 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 S.p.A.: Banco di Desio e della Brianza S.p.A. has a 35.93% 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 31.12.2015 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 S.p.A there were no commitments outstanding at 31.12.2015 or risks associated with contingent liabilities related to this investment.

With reference to the associate Chiara Assicurazioni S.p.A, 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 the company, which closed the last two years with gross premiums over the benchmark, achieved gross premiums in the 2015 preliminary accounts that suggest that they will not come in under the benchmark.

Note also that the contract provided for a commitment on the part of the selling shareholders to buy a pro-rata basis or to make third parties purchase by 24 October 2015, for a total of Euro 5 million, the investment consisting of no. 934,590 shares of Cassa di Risparmio di Rimini S.p.A. held by Chiara Assicurazioni S.p.A. Note that on the expiry date of this commitment, other technical extensions were granted that brought about a contractual redefinition of the commitment.

At the reporting date, taking into account the equity value of the interest held by Chiara Assicurazioni (1.898%) as per the 2015 half-yearly financial statements published by Cassa di Risparmio di Rimini S.p.A., we point out that this value is lower than the carrying value of the investment and therefore, Banco di Desio made a provision for risks and charges for this purchase commitment of Euro 182 thousand.

### 10.9 Significant restrictions

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

### 10.10 Other information

There is no other information to be reported.

## SECTION 12 - PROPERTY, PLANT AND EQUIPMENT - CAPTION 120

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

| Assets/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1 Own assets** | **183,812** | **184,699** |
| a) land | 52,564 | 52,581 |
| b) property | 109,698 | 111,950 |
| c) furniture | 7,446 | 7,963 |
| d) electronic systems | 7,881 | 6,024 |
| e) other | 6,223 | 6,181 |
| **2 Land and property under finance lease** | | |
| a) land | | |
| b) property | | |
| c) furniture | | |
| d) electronic systems | | |
| e) other | | |
| **Total** | **183,812** | **184,699** |

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 3 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.

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

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

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

| Assets/Amounts | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Own assets** | **1,171** | | | **1,047** | **1,188** | | | **1,061** |
| a) land | 498 | | | 426 | 498 | | | 436 |
| b) property | 673 | | | 621 | 690 | | | |
| **2. Land and property under finance lease** | | | | | | | | 625 |
| a) land | | | | | | | | |
| b) property | | | | | | | | |
| **Total** | **1,171** | | | **1,047** | **1,188** | | | **1,061** |

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

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

At the reporting dates, the Banco Desio Group did not have any revalued property, plant and equipment for business purposes.

### 12.4 Investment property: breakdown of assets carried at fair value

At the reporting dates, the Banco Desio Group has no investment property measured at fair value.

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

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **52,581** | **135,902** | **41,65** | **39,687** | **33,88** | **303,700** |
| A.1 Total net w ritedow ns | | 23,952 | 33,687 | 33,663 | 27,699 | 119,001 |
| **A.2 Net opening balance** | **52,581** | **111,950** | **7,963** | **6,024** | **6,181** | **184,699** |
| **B. Increases** | **29** | **627** | **1,505** | **4,372** | **3,472** | **10,005** |
| B.1 Purchases | 29 | 607 | 716 | 3,917 | 2,381 | 7,650 |
| B.2 Capitalised improvement costs | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Increase in fair value booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| B.5 Exchange gains | | | | | | |
| B.6 Transfer from investment property | | | | | | |
| B.7 Other changes | | 20 | 789 | 455 | 1,091 | 2,355 |
| **C. Decreases** | **46** | **2,879** | **2,022** | **2,515** | **3,430** | **10,892** |
| C.1 Sales | 46 | 69 | 56 | 383 | 1,125 | 1,679 |
| C.2 Depreciation | | 2,727 | 1,897 | 2,108 | 1,224 | 7,956 |
| C.3 Impairment w rite-dow ns booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| C.4 Decreases in fair value booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| C.5 Exchange losses | | | | | | |
| C.6 Transfers to: | | | 3 | | | 3 |
| a) investment property, plant and equipment | | | | | | |
| b) assets held for sale | | | 3 | | | 3 |
| C.7 Other changes | | 83 | 66 | 24 | 1,081 | 1,254 |
| **D. Net closing balance** | **52,564** | **109,698** | **7,446** | **7,881** | **6,223** | **183,812** |
| D.1 Net total w rite-dow ns | | 26.679 | 35,584 | 35,771 | 28,923 | 126,957 |
| **D.2 Gross closing balance** | **52,564** | **136,377** | **43,030** | **43,652** | **35,146** | **310,769** |
| **E. Measurement at cost** | | | | | | |

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

From the sale of property, plant and equipment, as indicated by the caption "C.1 Sales", realised gains of Euro 77 thousand have been recognised (of which Euro 2 thousand in the income statement under caption 270 "Gains (Losses) on disposal of investments" and Euro 75 thousand under caption 220 "Other operating charges/income"), as well as realised losses of Euro 22 thousand, booked to the income statement under caption 220 "Other operating charges/income".

## 12.6 Investment property: changes during the year

| | Total | |
|---|---|---|
| | Lands | Buildings |
| **A. Opening balance** | **498** | **690** |
| **B. Increases** | | |
| B.1 Purchases | | |
| of which: *business combinations* | | |
| B.2 Capitalised improvement costs | | |
| B.3 Positive changes in *fair value* | | |
| B.4 Write-backs | | |
| B.5 Foreign exchange gains | | |
| B.6 Transfers from assets used in business | | |
| B.7 Other changes | | |
| **C. Decreases** | | **17** |
| C.1 Sales | | |
| C.2 Depreciation | | 17 |
| C.3 Negative changes in *fair value* | | |
| C.4 Impairment write-downs | | |
| C.5 Foreign exchange losses | | |
| C.6 Transfers to other asset categories | | |
| a) assets used in business | | |
| b) non-current assets and disposal groups held for sale | | |
| C.7 Other changes | | |
| **D. Closing balance** | **498** | **673** |
| E. Measurement at *fair value* | | |

## 12.7 Commitments to purchase property, plant and equipment

At year-end there are no commitments to purchase property, plant and equipment.

# SECTION 13 - INTANGIBLE ASSETS - CAPTION 130

## 13.1 Intangible assets: breakdown by type

| Assets/Amounts | 31.12.2015 | | 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 | 2,885 | | 3,062 | |
| A.2.1 Carried at cost: | 2,885 | | 3,062 | |
| a) Intangible assets generated internally | | | | |
| b) Other assets | 2,885 | | 3,062 | |
| A.2.2 Carried at fair value: | | | | |
| a) Intangible assets generated internally | | | | |
| b) Other assets | | | | |
| **Total** | **2,885** | **15,322** | **3,062** | **15,322** |

Intangible assets with an indefinite useful life are subjected to impairment testing at least once 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 live. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is 4 years and for application software it is 5 years.

**13.1.1 Impairment testing of goodwill**

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2015.

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

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

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

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

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

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

<u>"Explicit" time period for the determination of future cash flows</u>
The time horizon used is the same as the 2015-2017 Business Plan approved by the Directors in February 2016, as updated for the years 2016-2017 after approval of the 2016 budget by the Directors on 11 January 2016, as well as the further development of this updated plan, prepared by the management, with projections of future results extended to include an explicit forecast period of 5 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.

<u>Cash flows</u>
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.

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

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

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

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

b) Parameters used for impairment testing

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

| CGU | Model | Input used | CAGR RWA | Ke | g | Plan flows | Capital ratio |
|---|---|---|---|---|---|---|---|
| Banco di Desio e della Brianza S.p.A. | DDM | 2015-2017 Business Plan extended to 2020 (*) | 1.00% | 8.30% | 1.50% | Net results | CET 1 8.50% (**) |
| Banca Popolare di Spoleto S.p.A. | DDM | Update of the 2015-2017 Business Plan, extended to 2020 (***) | 2.74% | 8.30% | 1.50% | Net results | CET 1 8.50% (**) |
| Fides S.p.A. | DDM | 2016-2018 Development Plan extended to 2020 (****) | 13.41% | 9.80% | 1.50% | Net results | CET 1 8.50% (**) |

(*) Considering the updated estimated future cash flows that take into account the 2015 interim report and the 2016 budget approved by the Board of Directors of the Parent Company on 11 January 2016.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA).
(***) Considering the updated estimated future cash flows that take into account the 2015 report and of the 2016 budget approved by the Board of Directors on 11 January 2016.
(****) Considering the 2016-2018 Development Plan extended to 2020 prepared by the company and approved by the Parent Company on 11 January 2016 as carrying out management and coordination activities.

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

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

c) Sensitivity analysis

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

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

| CGU | % Decrease in Net future Results (RN) (*) | Increase in percentage points of discount rate used for future cash flows (FCFE) |
|---|---|---|
| Banco di Desio e della Brianza S.p.A. | 32.81% | 385 |
| Banca Popolare di Spoleto S.p.A. | 14.39% | 124 |
| Fides S.p.A. | 67.77% | Over 1,000 |

(*) This parameter has replaced the "exogenous" parameter of the "reduction of the growth rate over the "g" Plan", used in previous sensitivity analyses, in order to have two sensitivity parameters, one of which "endogenous", given by the "% decrease in Net future Results" and an "exogenous" one given by the "increase in the discount rate of future cash flows", instead of two "exogenous" parameters.

**13.1.2 Second level impairment tests**

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) in 2015 was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole, which, for a better understanding of the result, indicates the recoverable amount of Consolidated Shareholders' Equity as an amount per share.

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

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

"Explicit" time period for the determination of future cash flows
The time horizon used is the same as the 2015-2017 Business Plan approved by the Directors in February 2016, as updated for the years 2016-2017 after approval of the 2016 budget by the Directors on 11 January 2016, as well as the further development of this updated plan, prepared by the management, with projections of future results extended to include an explicit forecast period of 5 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 investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific Consolidated Own Funds, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

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

| | Model | Input used | CAGR RWA | Ke | g | Plan flows | Capital ratio |
|---|---|---|---|---|---|---|---|
| Banco Desio Group | DDM | 2015-2017 Business Plan extended to 2020 (*) | 1.85% | 8.30% | 1.50% | Net results | CET 1 8.50% (**) |

(*) Considering the updated estimated future cash flows that take into account the 2015 interim report and the 2016 budget approved by the Board of Directors of the Parent Company on 11 January 2016.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA).

An amount arose from impairment testing that was higher than the average capitalisation in 2014 of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of Consolidated Shareholders' Equity at the measurement date, there was no need to write down any of the Group's assets.

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

c) Sensitivity analysis

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

The table provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of Consolidated Shareholders' Equity match the carrying amount at the measurement date.

| | % decrease in Net future Results (RN) (*) | Increase in percentage points of discount rate used for future cash flows (FCFE) |
|---|---|---|
| Banco Desio Group | 17.01% | 159 |

(*) This parameter has replaced the "exogenous" parameter of the "reduction of the growth rate over the "g" Plan", used in previous sensitivity analyses, in order to have two sensitivity parameters, one of which "endogenous", given by the "% decrease in future net results" and an "exogenous" one given by the "increase in the discount rate of future cash flows", instead of two "exogenous" parameters.

### 13.2 Intangible assets: changes during the year

| | Goodwill | Other intangible assets: generated internally | | Other intangible assets: | | Total |
|---|---|---|---|---|---|---|
| | | LIM | UNLIM | LIM | UNLIM | |
| **A. Gross opening balance** | **35,963** | | | **8,539** | | **44,511** |
| A.1 Total net writedowns | 20,641 | | | 5,477 | | 26,127 |
| **A.2 Net opening balance** | **15,322** | | | **3,062** | | **18,384** |
| **B. Increases** | | | | **1,559** | | **1,559** |
| B.1 Purchases | | | | 1,492 | | 1,492 |
| of which: business combinations | | | | | | |
| B.2 Increases in internally generated intangible assets | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Positive changes in fair value | | | | | | |
| - recognised in equity | | | | | | |
| - recognised in income statement | | | | | | |
| B.5 Foreign exchange gains | | | | | | |
| B.6 Other changes | | | | 67 | | 67 |
| **C. Decreases** | | | | **1,736** | | **1,736** |
| C.1 Sales | | | | 75 | | 75 |
| C.2 Write-downs | | | | 1,661 | | 1,661 |
| - amortisation | | | | 1,661 | | 1,661 |
| - Write-downs | | | | | | |
| + shareholders' equity | | | | | | |
| + income statement | | | | | | |
| C.3 Negative changes in fair value | | | | | | |
| - recognised in equity | | | | | | |
| - recognised in income statement | | | | | | |
| C.4 Transfers to non-current assets held for sale | | | | | | |
| C.5 Foreign exchange losses | | | | | | |
| C.6 Other changes | | | | | | |
| **D. Net closing balance** | **15,322** | | | **2,885** | | **18,207** |
| D.1 Total net writedowns | 20,641 | | | 2,160 | | 22,801 |
| **E. Gross closing balance** | **35,963** | | | **5,045** | | **41,008** |
| F. Measurement at cost | | | | | | |

**Key**
LIM: limited duration
UNLIM: unlimited duration

### 13.3 Other information

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

## SECTION 14 - TAX ASSETS AND LIABILITIES - ASSET CAPTION 140 AND LIABILITY CAPTION 80

### 14.1 Deferred tax assets: breakdown

| | IRES | IRAP | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| **A) With contra-entry to the income statement:** | | | | |
| Tax losses | 1,009 | | 1,009 | 6,213 |
| Tax deductible goodwill | 2,664 | 540 | 3,204 | 2,839 |
| Write-down of loans to customers deductible on a straight-line basis | 151,549 | 19,431 | 170,980 | 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 | 81 | | 81 | 87 |
| Provision for guarantees and commitments and country risk | 790 | | 790 | 511 |
| Provisions for personnel costs | 5,666 | 963 | 6,629 | 5,222 |
| Provision for law suits | 4,167 | 165 | 4,332 | 4,297 |
| Provision for claw-backs | 1,383 | 280 | 1,663 | 1,461 |
| Provision for sundry charges | 519 | 39 | 558 | 320 |
| Tax provision for termination indemnities | 313 | | 313 | 303 |
| Entertainment expenses, one third of which is deductible over four | | | | |
| Other general expenses deductible in the following year | 72 | | 72 | 27 |
| Other | 1,718 | 400 | 2,118 | 2,703 |
| **Total A** | **170,245** | **21,818** | **192,063** | **195,184** |
| **B) With contra-entry to shareholders' equity:** | | | | |
| Tax provision for termination indemnities | 590 | | 590 | 1,055 |
| Write-down of securities classified as AFS | 1,900 | 391 | 2,291 | 936 |
| Other | 193 | 24 | 217 | |
| **Total B** | **2,683** | **415** | **3,098** | **1,991** |
| **Total (A+B)** | **172,928** | **22,233** | **195,161** | **197,175** |

The caption "Other" mainly refers to deferred tax assets of Banca Popolare di Spoleto S.p.A., relating:

– for Euro 643 thousand to the impairment of equity instruments classified as financial Assets available for sale;

– for Euro 450 thousand to the impairment of a property owned by the Group;

– for Euro 414 thousand to provisions for customers' bankruptcy proceedings;

– for Euro 125 thousand to the ACE facilitation not used for lack of taxable income.

***Probability test*** **on deferred tax assets**

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 173,678 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

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

### 14.2 Deferred tax liabilities: breakdown

| | IRES | IRAP | 31.12.2015 | 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 goodw ill | 475 | 96 | 571 | 1,231 |
| Tax amortisation of deferred charges (softw are) | 2 | 5 | 7 | 7 |
| Tax provision as per art. 106, paragraph 3 | 20 | | 20 | 20 |
| Tax provision for termination indemnities | 550 | | 550 | 657 |
| Other | 12,007 | 2,076 | 14,832 | 16,040 |
| **Total A** | **19,750** | **3,063** | **22,813** | **25,539** |
| **B) With contra-entry to shareholders' equity:** | | | | |
| Cash-flow hedges | 26 | 5 | 31 | |
| Revaluation of AFS securities | 7,171 | 1,443 | 8,614 | 8,431 |
| Revaluation of equity investments | 6 | 24 | 30 | 30 |
| Tax provision for termination indemnities | 53 | | 53 | |
| **Total B** | **7,256** | **1,472** | **8,728** | **8,461** |
| **Total (A+B)** | **27,006** | **4,535** | **31,541** | **34,000** |

"Other" mainly refers to deferred tax liabilities relating:

- for Euro 12,325 thousand to fair value differences recorded in the consolidated financial statements pursuant to IFRS 3, following the business combination with Banca Popolare di Spoleto S.p.A.(the acquisition took place in the previous year);

- for Euro 1,509 thousands of capital gains realized on financial assets contribute to the formation of income on a straight-line basis in the same and the following four years, in accordance with art. 86, para.4, of the Consolidated Income Tax Act.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **195,189** | **86,747** |
| **2. Increases** | **20,660** | **159,839** |
| 2.1 Deferred tax assets recognised during the year | 20,525 | 58,271 |
| a) relating to prior years | 251 | |
| b) due to changes in accounting policies | | |
| c) w rite-backs | | |
| d) other | 20,274 | 58,271 |
| 2.2 New taxes or increases in tax rates | | 721 |
| 2.3 Other increases | 135 | 100,847 |
| *of which: business combinations* | | *99,796* |
| **3. Decreases** | **23,786** | **51,397** |
| 3.1 Deferred tax assets cancelled in the year | 5,622 | 20,762 |
| a) reversals | 5,622 | 20,762 |
| b) w ritten dow n as no longer recoverable | | |
| c) change in accounting policies | | |
| d) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | 18,164 | 30,635 |
| a) Conversion to tax credits as per L. 214/2011 | 12,281 | 28,952 |
| b) Other | 5,883 | 1,683 |
| *of which: business combinations* | | |
| **4. Closing balance** | **192,063** | **195,189** |

Caption “2.1 Deferred tax assets recognised during the year” mainly concerns the recognition of deferred tax assets:

- Euro 13,522 thousand relating to write-downs and loan losses in connection with customer loans, 25% of their amount is deductible over subsequent years (Decree Law no. 83 of 27 June 2015, converted with amendments into Law no. 132 on 6 August 2015);
- Euro 3,571 thousand relating to non deductible provisions for risks and charges and employee related provisions;
- Euro 1,503 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions;
- Euro 884 thousand, to the IRAP impacts 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 no. 22/E of 9 June 2015;
- Euro 583 thousand, by the Parent Company on the goodwill transferred for statutory purposes to Banca Popolare di Spoleto S.p.A.;
- Euro 251 thousand, by Banca Popolare di Spoleto S.p.A., for taxes paid on the 2012 tax return related to loan write-backs.

The caption “2.3 Other increases” relates to the recognition by the Parent Company of a receivable for deferred tax assets as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2014 on costs which became non-deductible on presentation of the 2014 tax return.

The main components of deferred tax assets cancelled during the year come:

- for Euro 1,403 thousand from the tax recovery of loan write-downs transferred by the Parent Company to Banca Popolare di Spoleto S.p.A. within the business combination which took place in the previous year;
- for Euro 3,738 thousand from the use of taxed provisions.

The caption “3.3 Other decreases” in deferred tax assets of Banca Popolare di Spoleto S.p.A., and in detail:

- for Euro 12,281 thousand to the conversion into current tax credits of deferred tax assets recognised on the write-down of loans pursuant to Law 214/2011;
- for Euro 2,487 thousand to the conversion into current tax credits of deferred tax assets recognised on tax losses;

for Euro 3,396 thousand to the utilisation of deferred tax assets on tax losses and ACE facilitations, that arose from offsetting prior year losses and ACE surpluses against taxable income for the year.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **173,730** | **78,225** |
| **2. Increases** | **13,773** | **138,878** |
| **3. Decreases** | **13,825** | **43,373** |
| 3.1 Reversals | 1,544 | 12,787 |
| 3.2 Conversion to tax credits | 12,281 | 28,952 |
| a) arising from the loss for the year | 12,281 | 28,952 |
| b) arising from tax losses | | |
| 3.3 Other decreases | | 1,634 |
| **4. Closing balance** | **173,678** | **173,730** |

The caption “2. Increases” relates to the recognition of a deferred tax assets of:

- Euro 13,522 thousand relating to write-downs and loan losses in connection with customer loans, 25% of their amount is deductible over subsequent years (Decree Law no. 83 of 27 June 2015, converted with amendments into Law no. 132 on 6 August 2015). .
- Euro 251 thousand, by Banca Popolare di Spoleto S.p.A., for taxes paid on the 2012 tax return related to loan write-backs.

The caption “3.1 Reversals” refers to:

- for Euro 1,403 thousand to the tax recovery of write-downs related to loans transferred by the Parent Company to Banca Popolare di Spoleto S.p.A.as part of the business combination occurred in the previous year;
- Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

The caption “3.2 Conversion into tax credits” refers to the transformation, by Banca Popolare di Spoleto S.p.A., into current tax credits of deferred tax assets recognised on the write-down of loans pursuant to Law no. 214/2011. This conversion is effective from the date of approval of the financial statements for the year ended 31/12/2014 by the Shareholders’ Meeting, which took place in March 2015.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **25,539** | **9,449** |
| **2. Increases** | **367** | **17,207** |
| 2.1 Deferred tax liabilities recognised during the year | 367 | 12,748 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 367 | 12,748 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | 4,459 |
| *of which: business combinations* | | *4,246* |
| **3. Decreases** | **3,093** | **1,117** |
| 3.1 Deferred tax liabilities cancelled during the year | 3,093 | 1,117 |
| a) reversals | 3,093 | 1,117 |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | |
| *of which: business combinations* | | |
| **4. Closing balance** | **22,813** | **25,539** |

The caption "2.1 Deferred tax liabilities recognised during the year" relates to the recognition of deferred tax liabilities due to the recalculation of the deduction of IRAP on previous years' labour costs from IRES (247 thousand euro).

Deferred tax liabilities cancelled during the year are mainly attributable:

– for Euro 1,662 thousand, to *fair value* differences recorded in the consolidated financial statements pursuant to IFRS 3, following the business combination with Banca Popolare di Spoleto S.p.A. (the acquisition took place in the previous year);
– for Euro 673 thousand relating to the reversal of deferred tax liabilities on the goodwill transferred for statutory purposes by the Parent Company to Banca Popolare di Spoleto S.p.A.;
– for Euro 529 thousand to the share of capital gains realised on financial assets in 2013 and 2014, deductible on a straight-line basis over the following four years in accordance of art. 86, co.4 of Tuir (Consolidated Income Tax Act);
– for Euro 107 thousand to tax provision for termination indemnities.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **1,986** | **1,991** |
| **2. Increases** | **1,892** | **1,905** |
| 2.1 Deferred tax assets recognised during the year | 1,744 | 1,150 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 1,744 | 1,150 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | 148 | 755 |
| *of which: business combinations* | | *755* |
| **3. Decreases** | **780** | **1,910** |
| 3.1 Deferred tax assets cancelled in the year | 780 | 1,306 |
| a) reversals | 780 | 1,306 |
| b) w ritten dow n as no longer recoverable | | |
| c) due to changes in accounting policies | | |
| d) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | 604 |
| *of which: business combinations* | | |
| **4. Closing balance** | **3,098** | **1,986** |

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

The caption "2.3 Other increases" relates to the recognition of a deferred tax asset on goodwill paid for the acquisition of the Milan branch by the Parent Company.

Deferred tax assets cancelled in the year of Euro 780 thousand mainly relate to:

– for Euro 294 thousand to the valuation of securities classified under Financial assets available for sale;
– for Euro 416 thousand to the valuation of the actuarial reserve for termination indemnities.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **8,461** | **2,558** |
| **2. Increases** | **2,680** | **8,742** |
| 2.1 Deferred tax liabilities recognised during the year | 2,680 | 2,014 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 2,680 | 2,014 |
| 2.2 New taxes or increases in tax rates | | 92 |
| 2.3 Other increases | | 6,636 |
| *of which: business combinations* | | *6,636* |
| **3. Decreases** | **2,413** | **2,839** |
| 3.1 Deferred tax liabilities cancelled during the year | 2,413 | 2,839 |
| a) reversals | 2,413 | 2,319 |
| b) due to changes in accounting policies | | |
| c) other | | 520 |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | |
| *of which: business combinations* | | |
| **4. Closing balance** | **8,728** | **8,461** |

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

### 14.7 Other information

The reduction of the IRES rate from 27.5% to 24%, introduced by art. 1, para. 61 et seq. of the 2016 Stability Law (Law no. 208 of 28 December 2015), scheduled to run from 1 January 2017, is neutralised for banks and financial institutions by the introduction of a 3.5% surtax on the IRES rate, also effective from 2017 (art. 1, para. 65 et seq of the same Law). With the introduction of the surtax, therefore, the conditions for "adapting" the amount of deferred tax assets and liabilities in the financial statements at 31 December 2015 to the lower IRES rate no longer apply.

## SECTION 15 - 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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Individual assets** | | |
| A.1 Financial assets | 1,882 | |
| A.2 Equity investments | 2,471 | |
| A.3 Property, plant and equipment | | |
| A.4 Intangible assets | | |
| A.5 Other non-current assets | 614 | |
| **Total A** | **4,967** | |
| of which carried at cost | 4,967 | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |
| **B. Groups of assets (discontinued operations)** | | |
| B.1 Financial assets held for trading | | |
| B.2 Financial assets designated at fair value through profit and loss | | |
| B.3 Financial assets available for sale | | |
| B.4 Financial assets held to maturity | | |
| B.5 Due from banks | | |
| B.6 Loans to customers | | |
| B.7 Equity investments | | |
| B.8 Property, plant and equipment | | |
| B.9 Intangible assets | | |
| B.10 Other assets | | |
| **Total B** | | |
| of which carried at cost | | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |
| **C. Liabilities associated with assets held for sale** | | |
| C.1 Payables | | |
| C.2 Securities | | |
| C.3 Other liabilities | 754 | |
| **Total C** | **754** | |
| of which carried at cost | 754 | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |
| **D. Liabilities associated with groups of assets held for sale** | | |
| D.1 Due to banks | | |
| D.2 Due to customers | | |
| D.3 Debt securities in issue | | |
| D.4 Financial liabilities held for trading | | |
| D.5 Financial liabilities designated at fair value through profit and loss | | |
| D.6 Provisions | | |
| D.7 Other liabilities | | |
| **Total D** | | |
| of which carried at cost | | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |

The table provides information about non-current assets and disposal groups held for sale and associated Liabilities, reclassified under asset caption 150 and liability Caption 90 in accordance with IFRS 5. These figures, commented after the tables of the relevant captions, refer to the subsidiary Rovere S.A. and to the value of the investment in Istifid S.p.A. which are being sold following the strategic policy resolution adopted by the Board of Directors of the Parent Company on 28 April 2015 for Rovere S.A.and on 11 January 2016 for Istifid S.p.A.

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

### 15.2 Other information

There is no other information to be reported in addition to those supplied under table 15.1.

## SECTION 16 - OTHER ASSETS - CAPTION 160

### 16.1 Other assets: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Tax credits | | |
| - capital portion | 10,762 | 8,749 |
| - interest | | |
| Amounts recoverable from the tax authorities for advances paid | 48,836 | 46,894 |
| Withholding tax credits | 25 | 3 |
| Cheques negotiated to be cleared | 6,271 | 21,911 |
| Guarantee deposits | 2 | 2 |
| Invoices issued to be collected | 907 | 1,031 |
| Debtors for securities and coupons to be collected by third parties | | |
| Printer consumables and stationery | | |
| Items being processed and in transit w ith branches | 41,881 | 57,568 |
| Currency spreads on portfolio transactions | 188 | 214 |
| Investments of the supplementary fund for termination indemnities | 362 | 443 |
| Leasehold improvement expenditure | 16,814 | 19,495 |
| Accrued income and prepaid expenses | 1,044 | 874 |
| Other items | 20,567 | 20,761 |
| **Total** | **157,659** | **177,945** |

The values in the table are shown net of Euro 610 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.

The balance of this caption at 31 December 2015 mainly relates to the Group banking sector.

The main changes in "Tax credits - capital portion" are shown below:

- increase of 2,342 thousand euro, relating to the IRAP credit of the subsidiary Banca Popolare di Spoleto S.p.A. resulting from the tax return submitted for the year ended 31/12/2014;
- decrease of 336 thousand euro, for the reimbursement received by the Parent Company from the Tax Authorities of the withholding tax paid on the step-up of the tax value of goodwill carried out in 2009, pursuant to art. 15, paragraph 10, Legislative Decree no. 185/2008 for the merged company Banco Desio Veneto S.p.A..

Amounts recoverable from the tax authorities for advances paid are made up of:

- a receivable for withholding tax on interest on deposits and current accounts of Euro 9,485 thousand;
- a receivable for virtual stamp duty of Euro 25,615 thousand;
- a receivable for an advance payment of substitute tax due on "capital gains" of Euro 13,699 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013;
- a receivable for an advance payment of substitute tax on medium/long term loans of Euro 37 thousand.

"Items being processed and in transit with branches" include transactions that are usually settled in the first days of the 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 receivables still to be collected and invoices to be issued totalling Euro 14 million.

## LIABILITIES

## SECTION 1 - DUE TO BANKS - CAPTION 10

### 1.1 Due to banks: breakdown

| Type of transaction/Members of the group | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Due to central banks** | **551,009** | **897,356** |
| **2. Due to banks** | **202,106** | **120,111** |
| 2.1 Current accounts and demand deposits | 32,657 | 67,068 |
| 2.2 Restricted deposits | 7,997 | 15,548 |
| 2.3 Loans | 161,387 | 37,369 |
| 2.3.1 Repurchase agreements | | |
| 2.3.2 Other | 161,387 | 37,369 |
| 2.4 Payables for commitments to repurchase own equity instruments | | |
| 2.5 Other payables | 65 | 126 |
| **Total** | **753,115** | **1,017,467** |
| **Fair value - Level 1** | | |
| **Fair value - Level 2** | | |
| **Fair value - Level 3** | **753,115** | **1,017,467** |
| **Total fair value** | **753,115** | **1,017,467** |

### 1.2 Details of caption 10 “Due to banks” - subordinated loans

At the reporting dates, the Group did not have any subordinated loans due to banks.

### 1.3 Details of caption 10 “Due to banks”: structured loans

At the reporting dates, the Group did not have any amounts due to banks with specific hedges.

### 1.4 Due to banks with specific hedge

At the reporting dates, the Group did not have any amounts due to banks with specific hedges.

### 1.5 Finance lease payables

At the reporting dates, the Group did not have any finance lease contracts with banks.

# SECTION 2 - DUE TO CUSTOMERS - CAPTION 20

## 2.1 Due to customers: breakdown

| Type of transaction/Members of the group | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Current accounts and demand deposits | 6,767,936 | 6,480,589 |
| 2. Restricted deposits | 1,265,977 | 744,940 |
| 3. Loans | 176,276 | 193,541 |
| 3.1 Repurchase agreements | 152,105 | 165,751 |
| 3.2 Other | 24,171 | 27,790 |
| 4. Payables for commitments to repurchase own equity instruments | | |
| 5. Other payables | 33,921 | 24,955 |
| **Total** | **8,244,110** | **7,444,025** |
| **Fair value - Level 1** | | |
| **Fair value - Level 2** | | |
| **Fair value - Level 3** | **8,244,110** | **7,444,025** |
| **Fair value** | **8,244,110** | **7,444,025** |

The caption "3.2 Loans - Other" represents the amount of loans received that Group companies have entered into with Cassa Depositi e Prestiti for Euro 24,171 thousand.

The main components of "5. Other payables" relate to: cashier's cheques for Euro 28,774 thousand and cheques for Euro 548 thousand and the payable that the subsidiary Fides has allocated for 2,498 thousand euro, perfecting the methods of calculating the pro rata basis with respect to the recovery of commissions in its favour to be paid to customers who paid off their loan agreement in advance.

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

At the reporting dates, the Group did not have any subordinated loans with customers.

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

At the reporting dates, the Group did not have any structured loans with customers.

## 2.4 Due to customers with specific hedge

At the reporting dates, the Group did not have any amounts due to customers with specific hedges.

## 2.5 Finance lease payables

At the reporting dates, the Group did not have any amounts due to customers for finance lease transactions.

# SECTION 3 - DEBT SECURITIES IN ISSUE - CAPTION 30

## 3.1 Debt securities in issue: breakdown

| | 31.12.2015 | | | | 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 | 1,761,760 | | 1,742,261 | 11,404 | 2,129,298 | | 2,104,030 | 20,981 |
| *1.1 structured* | *14,771* | | *14,771* | | *51,739* | | *51,739* | |
| *1.2 other* | *1,746,989* | | *1,727,490* | *11,404* | *2,077,559* | | *2,052,291* | *20,981* |
| 2. Other securities | 156,344 | | | 156,344 | 669,454 | | | 669,454 |
| *2.1 structured* | | | | | | | | |
| *2.2 other* | *156,344* | | *156,344* | *156,344* | *669,454* | | | *669,454* |
| **Total** | **1,918,104** | | **1,742,261** | **167,748** | **2,798,752** | | **2,104,030** | **690,435** |

This caption reflects funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost (or at *fair value* if the security is hedged), inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

During the year, new bonds were issued by the Group for a total of Euro 302,601 thousand, whereas Euro 689,074 thousand of securities were redeemed. Again, during the year, securities have been repurchased for Euro 165,609 thousand and which were subsequently reissued for Euro 159,319 thousand.

The captation "A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 81,688 thousand were issued with a short term maturity and Euro 74,255 thousand were issued with a longer than short term maturity.

The remainder consists of certificates of Euro 401 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 | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|
| **Issued by the Parent Company** | | | | | | |
| ISIN code IT0004654866 | 01.12.2010 | 01.12.2015 | EUR | FR | | 12,998 |
| ISIN code IT0004780182 | 29.12.2011 | 29.12.2016 | EUR | FR | 12,911 | 13,001 |
| ISIN code IT0004815855 | 15.06.2012 | 15.06.2017 | EUR | FR | 12,896 | 13,010 |
| ISIN code IT0004921166 | 03.06.2013 | 03.06.2018 | EUR | FR | 12,942 | 13,027 |
| ISIN code IT0005038085 | 28.08.2014 | 28.08.2019 | EUR | FR | 50,397 | 50,441 |
| ISIN code IT0005070179 | 22.12.2014 | 22.12.2019 | EUR | FR | 49,986 | 50,024 |
| ISIN code IT0005107880 | 28.05.2015 | 28.05.2022 | EUR | FR | 79,894 | |
| ISIN code IT0005136335 | 16.10.2015 | 16.10.2021 | EUR | FR | 50,199 | |
| **Issued by Subsidiaries** | | | | | | |
| ISIN code IT0003957112 | 07.12.2005 | 07.12.2015 | EUR | FR | | 29,846 |
| ISIN code IT0004331598 | 15.04.2008 | 15.04.2018 | EUR | FR | 8,119 | 8,209 |
| ISIN code IT0004344278 | 18.04.2008 | 18.04.2018 | EUR | FR | 10,646 | 10,851 |
| **Total** | | | | | **287,990** | **201,407** |

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

- duration: 7 years for the security issued in May 2015 and 6 years for the security issued in October 2015;
- 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.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Securities with specific fair value hedge: | 74,016 | 101,245 |
| a) interest rate risk | 74,016 | 101,245 |
| b) exchange rate risk | | |
| c) other risks | | |
| 2. Securities with specific cash flow hedge: | 130,093 | |
| a) interest rate risk | 130,093 | |
| b) exchange rate risk | | |
| c) other | | |

## SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - CAPTION 40

### 4.1 Financial liabilities held for trading: breakdown

| Type of transaction/Members of the Group | 31.12.2015 | | | | | 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 | | | 3,132 | 2,016 | | | | 1,175 | 2,084 | |
| 1.1 For trading | | | 3,132 | 2,016 | | | | 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** | | | **3,132** | **2,016** | | | | **1,175** | **2,084** | |
| **Total A+B** | | | **3,132** | **2,016** | | | | **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

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

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

At the reporting dates, the Group did not have any subordinated financial liabilities held for trading.

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

At the reporting dates, the Group did not have any subordinated loans included in financial liabilities held for trading.

## SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 50

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

| Type of transaction/Amounts | 31.12.2015 | | | | | 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** | **22,050** | | **22,828** | | **23,117** | **22,850** | | **23,626** | | **24,386** |
| 3.1 Structured | 22,050 | | 22,828 | | | 22,850 | | 23,626 | | 24,386 |
| 3.2 Other | | | | | | | | | | |
| **Total** | **22,050** | | **22,828** | | **23,117** | **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 (*fair value option*).

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

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

## SECTION 6 - HEDGING DERIVATIVES - CAPTION 60

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

| | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value | | | NV | Fair value | | | NV |
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | **24,758** | | **196,982** | | **6,717** | | **32,369** |
| 1) Fair value | | 24,328 | | 116,982 | | 6,717 | | 32,369 |
| 2) Cash flows | | 430 | | 80,000 | | | | |
| 3) Foreign investments | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **24,758** | | **196,982** | | **6,717** | | **32,369** |

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

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

| Operation/Type of hedge | *Fair Value* | | | | | | Cash flows | | Foreign investments |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | | | |
| | Interest rate risk | Exchange rate risk | Credit risk | Price risk | Other risks | Generic | Specific | Generic | |
| 1. Financial assets available for sale | 19,494 | | | | | | | | |
| 2. Loans and receivables | 4,834 | | | | | | | | |
| 3. Financial assets held to maturity | | | | | | | | | |
| 4. Portfolio | | | | | | | | | |
| 5. Other transactions | | | | | | | | | |
| **Total assets** | **24,328** | | | | | | | | |
| 1. Financial liabilities | | | | | | | 430 | | |
| 2. Portfolio | | | | | | | | | |
| **Total liabilities** | | | | | | | **430** | | |
| 1. Expected transactions | | | | | | | | | |
| 2. Financial assets and liabilities portfolio | | | | | | | | | |

## SECTION 8 - TAX LIABILITIES - CAPTION 80

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

## SECTION 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - CAPTION 90

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

## SECTION 10 - OTHER LIABILITIES - CAPTION 100

### 10.1 Other liabilities: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due to tax authorities | 2,226 | 1,344 |
| Amounts payable to tax authorities on behalf of third parties | 26,327 | 22,929 |
| Social security contributions to be paid | 6,684 | 5,098 |
| Dividends due to shareholders | 24 | 8 |
| Suppliers | 13,358 | 17,014 |
| Amounts available to customers | 18,528 | 13,610 |
| Interest and dues to be credited | 86 | 593 |
| Payments against bill instructions | 695 | 238 |
| Early payments on loans not yet due | 1,441 | 1,181 |
| Items being processed and in transit w ith branches | 68,106 | 54,945 |
| Currency differences on portfolio transactions | 80,439 | 98,748 |
| Due to personnel | 12,211 | 19,242 |
| Sundry creditors | 12,260 | 14,436 |
| Provisions for guarantees given and commitments | 4,378 | 1,857 |
| Accrued expenses | 2,442 | 2,626 |
| **Total** | **249,205** | **253,959** |

The components pertaining to the banking business contribute to the formation of the above caption for about Euro 246 million.

“Items being processed and in transit with branches” are generally settled in the early days of the new year. The main component thereof relates to bank transfers being procede for Euro 51,313 thousand (Euro 53,347 thousand in the previous year).

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

Liabilities “Due to personnel” include the early retirement incentives for about Euro 8,862 thousand and the year end balance of the amount due for holiday pay for about Euro 2,125 thousand.

The main items included under caption “Sundry creditors” refer to: sundry creditors arising from currency trading of Euro 1,930 thousand and creditors for bills paid of Euro 1,319 thousand.

## SECTION 11 - PROVISION FOR TERMINATION INDEMNITIES - CAPTION 110

### 11.1 Provision for termination indemnities: changes during the year

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Opening balance** | **34,985** | **23,971** |
| **B. Increases** | **912** | **12,995** |
| B.1 Provision for the year | 902 | 569 |
| B.2 Other changes | 10 | 12,426 |
| *of which: business combinations* | | *9,203* |
| **C. Decreases** | **6,185** | **1,981** |
| C.1 Payments made | 4,190 | 1,980 |
| C.2 Other changes | 1,995 | 1 |
| **D. Closing balance** | **29,712** | **34,985** |

The caption “C.2 Other changes” reflects the impact of discounting the provision for termination indemnities of the Parent Company.

### 11.2 Other information

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

***Demographic assumptions***

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were determined by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on statistics provided by the Group, an annual frequency of 2.50% was used for all Group companies except Banca Popolare di Spoleto, for which an annual frequency of 4.00% was used; account has also been taken of the Group’s redundancy plan;
- for the probability of advances, an annual amount of 4.00% was assumed for all Group companies except Banca Popolare di Spoleto, for which an annual frequency of 1.66% was considered, for consistency with the approach taken by the previous actuary.

***Economic-financial assumptions***

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

- annual technical discounting rate 2.00%
- annual inflation rate 1.75%
- total annual income growth rate 2.75%
- termination indemnity annual growth rate 2.81%.

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

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

| | Increase in parameter (+) | Decrease in parameter (-) |
|---|---|---|
| Annual discounting rate (+/-0.25%) | 29,165 | 30,275 |
| Annual inflation rate (+/-0.25%) | 30,052 | 29,377 |
| Annual turnover rate (+/-2%) | 29,628 | 29,815 |

## SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - CAPTION 120

### 12.1 Provisions for risks and charges: breakdown

| Items/Components | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Pensions and similar commitments | | |
| 2. Other provisions for risks and charges | 46,725 | 44,670 |
| *2.1 Legal disputes* | *22,438* | *19,597* |
| *2.2 Personnel expenses* | *20,342* | *18,839* |
| *2.3 Other* | *3,945* | *6,234* |
| **Total** | **46,725** | **44,670** |

"Legal disputes" include provisions made in the year for expected losses of Euro 15,404 thousand, arising from legal disputes and of Euro 5,028 thousand from bankruptcy clawback actions. In application of IFRS 3, the provision for bankruptcy clawback actions includes Euro 510 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS.

As regards "Personnel expenses" the main components relate to: the provision for Solidarity Fund for Euro 8,218 thousand, provision for bonuses for Euro 6,812 thousand and provisions for long-service bonuses and additional holidays for Euro 2,223 thousand.

The caption "Other" mainly includes:

- provisions inherent to tax dispute for 135 thousand euro;
- provision for tax risks of Euro 668 thousand related to *contingent* liabilities arising on the acquisition of BPS (IFRS 3);
- the contribution to the Solidarity Fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara introduced by the 2016 Stability Law for Euro 790 thousand:
- the allocation of future costs relating to the obligations arising from closure of the liquidation of the Swiss subsidiary CPC for Euro 1,085 thousand.

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.

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

### 12.2 Provisions for risks and charges: changes during the year

| Items/Components | Total | |
|---|---|---|
| | Pensions and similar commitments | Other provisions |
| **A. Opening balance** | | **44,670** |
| B. Increases | | 14,739 |
| B.1 Provision for the year | | 14,295 |
| B.2 Changes due to the passage of time | | 246 |
| B.3 Changes due to changes in the discount rate | | |
| B.4 Other changes | | 198 |
| **C. Decreases** | | **12,684** |
| C.1 Utilisations during the year | | 12,490 |
| C.2 Changes due to changes in the discount rate | | |
| C.3 Other changes | | 194 |
| **D. Closing balance** | | **46,725** |

### 12.3 Pensions and similar commitments - defined benefits

There are no balances at year end.

### 12.4 Provisions for risks and charges: other provisions

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

## SECTION 15 - GROUP SHAREHOLDERS’ EQUITY - CAPTIONS 140, 160, 170, 180, 190, 200 AND 220

### 15.1 “Share capital” and “Treasury shares”: breakdown

| | 31.12.2015 | 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 | | |

The share capital of Banco di Desio e della Brianza S.p.A., fully subscribed and paid, consists of:

– no. 117,000,000 ordinary shares with nominal value of Euro 0.52 each,
– no. 13,202,000 savings shares with nominal value of Euro 0.52 each.

No Group’s company holds or has held any treasury shares in the course of the year.

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

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

### 15.3 Share capital: other information

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

### 15.4 Revenue reserves: other information

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Legal reserve | 84,504 | 81,206 |
| Statutory reserves | 489,417 | 469,733 |
| Retained earnings (losses) | 16,474 | 15,848 |
| Other FTA reserves | 99,785 | 99,785 |
| Other reserves | 36,480 | 26,629 |
| **Total** | **726,660** | **693,201** |

## SECTION 16 - MINORITY INTERESTS - CAPTION 210

### 16.1 Details of caption 210 “Minority interests”

| Company name | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Equity investments in consolidated companies with significant minority interests | | |
| 1. Banca Popolare Spoleto | 51,283 | 53,911 |
| 2. Rovere S.A. | 145 | 169 |
| Other equity investments | 178 | 347 |
| **Total** | **51,606** | **54,427** |

### 16.2 Equity instruments: breakdown and changes during the year

Balances were zero at the reporting dates.

## OTHER INFORMATION

### 1. Guarantees given and commitments

| Transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1) Financial guarantees: | 16,386 | 35,464 |
| a) Banks | 2,117 | 17,980 |
| b) Customers | 14,269 | 17,484 |
| 2) Commercial guarantees: | 269,924 | 267,909 |
| a) Banks | 7,775 | 6,157 |
| b) Customers | 262,149 | 261,752 |
| 3) Irrevocable commitments to disburse loans | 155,166 | 187,824 |
| a) Banks | 3,925 | 21,510 |
| i) certain to be called on | 399 | 18,177 |
| ii) not certain to be called on | 3,526 | 3,333 |
| b) Customers | 151,241 | 166,314 |
| i) certain to be called on | 13,291 | 14,459 |
| ii) not certain to be called on | 137,950 | 151,855 |
| 4) Commitments underlying credit derivatives: sale of protection | | 25 |
| 5) Assets pledged to guarantee third-party commitments | | 1,556 |
| 6) Other commitments | 1,447 | 5,570 |
| **Total** | **442,923** | **523,323** |

## 2. Assets pledged as guarantees for own liabilities and commitments

| Portfolios | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Financial assets held for trading | | 6,835 |
| 2. Financial assets designated at fair value through profit and loss | | |
| 3. Financial assets available for sale | 889,806 | 147,399 |
| 4. Financial assets held to maturity | | |
| 5. Due from banks | | 16,240 |
| 6. Loans to customers | | 12,051 |
| 7. Property, plant and equipment | | |

## 5. Administration and trading on behalf of third parties

| Type of services | 31.12.2015 |
|---|---|
| **1. Execution of orders on behalf of customers** | |
| a) purchases | |
| 1. Settled | 52,789 |
| 2. Unsettled | 607 |
| b) sales | |
| 1. Settled | 46,340 |
| 2. Unsettled | 985 |
| **2. Asset management** | |
| a) Individual | 735,384 |
| b) Collective | 554,977 |
| **3. Custody and administration of securities** | |
| a) third-party securities on deposit as custodian bank (excluding portfolio management schemes) | |
| 1. securities issued by companies included in the consolidation | |
| 2. other securities | |
| b) third-party securities held on deposit (excluding portfolio management schemes): other | |
| 1. securities issued by companies included in the consolidation | 1,760,337 |
| 2. other securities | 8,303,088 |
| c) third-party securities deposited with third parties | 9,989,784 |
| d) portfolio securities deposited with third parties | 2,292,697 |
| **4. Other transactions** | |

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

| Technical forms | Gross amount of financial assets (a) | Amount of financial liabilities offset in the financial statements (b) | Net amount of financial assets reported in the financial statements (c = a-b) | Related amounts not subject to offsetting in the financial statements | | Net amount 31.12.2015 (f=c-d-e) | Net amount 31.12.2014 |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Deposits of cash received as collateral (e) | | |
| 1. Derivatives | 15,280 | | 15,280 | 2,351 | 12,140 | 789 | 1,733 |
| 2. Repurchase agreements | | | | | | | |
| 3. Securities lending | | | | | | | |
| 4. Other | | | | | | | |
| **Total 31.12.2015** | **15,280** | | **15,280** | **2,351** | **12,140** | **789** | |
| **Total 31.12.2014** | **3,279** | | **3,279** | **-844** | **2,390** | | **1,733** |

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

| Technical forms | Gross amount of financial assets (a) | Amount of financial liabilities offset in the financial statements (b) | Net amount of financial assets reported in the financial statements (c = a-b) | Related amounts not subject to offsetting in the financial | | Net amount 31.12.2015 (f=c-d-e) | Net amount 31.12.2014 |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Deposits of cash received as collateral (e) | | |
| 1. Derivatives | 27,816 | | 27,816 | 8,481 | 19,500 | -165 | |
| 2. Repurchase agreements | | | | | | | |
| 3. Securities lending | | | | | | | |
| 4. Other | | | | | | | |
| **Total 31.12.2015** | **27,816** | | **27,816** | **8,481** | **19,500** | **-165** | |
| **Total 31.12.2014** | **5,957** | | **5,957** | **5,957** | | | |

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

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

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

Note that the positive change in the gross amount of the financial assets shown in Table 5 compared with the prior year figures is related to the signing of additional collateral agreements with certain market counterparties by the subsidiary Banca Popolare di Spoleto. The change in the gross amount of financial liabilities shown in Table 6 compared with the prior year figure is mainly attributable to the signing of new derivatives to hedge securities classified as assets available for sale.

# PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

## INTEREST - CAPTIONS 10 AND 20

### 1.1 Interest and similar income: breakdown

| Captions/Technical forms | Debt securities | Loans | Other transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | 219 | | 588 | 807 | 772 |
| 2. Financial assets designated at fair value through profit and loss | | | | | |
| 3. Financial assets available for sale | 16,589 | | | 16,589 | 23,391 |
| 4. Financial assets held to maturity | | | | | 619 |
| 5. Due from banks | 841 | 232 | 5 | 1,078 | 2,431 |
| 6. Loans to customers | 98 | 344,509 | 1 | 344,608 | 323,456 |
| 7. Hedging derivatives | | | 548 | 548 | 2,216 |
| 8. Other assets | | | 36 | 36 | 5 |
| **Total** | **17,747** | **344,741** | **1,178** | **363,666** | **352,890** |

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

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 6,484 thousand. Conversely, the caption includes default interest collected in the year for Euro 764 thousand. It should also be noted that the caption is stated net of the provision made by the subsidiary Fides amounted of Euro 1,481 thousand calculated using the pro rata basis with respect to the recovery of commissions due to it to be paid to customers which repaid the loan agreement early in 2015.

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

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Positive differentials on hedging transactions | 3,251 | 3,937 |
| B. Negative differentials on hedging transactions | -2,703 | -1,721 |
| **C. Balance (A-B)** | **548** | **2,216** |

### 1.3 Interest and similar income: other information

#### 1.3.1 Interest income on financial assets in foreign currency

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Interest income on financial assets in foreign currency | 1,595 | 1,298 |

#### 1.3.2 Interest income from finance leases

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Interest income from finance leases | 10,320 | 13,005 |

Interest income recognised as income for the year on financial leases and included in “Loans to customers - loans”, refers for Euro 10,209 thousand to index-linked contracts, of which Euro 502 thousand in leaseback contracts.

### 1.4 Interest and similar expense: breakdown

| Captions/Technical forms | Payables | Securities | Other transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|
| 1. Due to central banks | -871 | | | -871 | -829 |
| 2. Due to banks | -593 | | -117 | -710 | -692 |
| 3. Due to customers | -44,342 | | | -44,342 | -60,797 |
| 4. Debt securities in issue | | -55,408 | | -55,408 | -61,994 |
| 5. Financial liabilities held for trading | -49 | | | -49 | -11 |
| 6. Financial liabilities designated at fair value through profit and loss | | -695 | | -695 | -863 |
| 7. Other liabilities and provisions | | | -56 | -56 | -5 |
| 8. Hedging derivatives | | | | | |
| **Total** | **-45,855** | **-56,103** | **-173** | **-102,131** | **-125,191** |

### 1.5 Interest and similar expense: differentials on hedging transactions

In the year just ended, as was the case in the prior year, differentials on hedging transactions were positive and, accordingly, are shown in Table 1.2 above.

### 1.6 Interest and similar expense: other information

#### 1.6.1 Interest expense on foreign currency liabilities

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Interest expense on foreign currency financial liabilities | -206 | -151 |

#### 1.6.2 Interest expense on finance leases

Banco Desio Group has no  party to asuch transactions.

## SECTION 2 - COMMISSION - CAPTIONS 40 AND 50

### 2.1 Commission income: breakdown

| Type of service/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) guarantees given | 3,394 | 2,819 |
| b) credit derivatives | | |
| c) management, brokerage and consulting services: | | |
| 1. trading in financial instruments | 47,892 | 37,864 |
| 2. trading in foreign exchange | | 119 |
| 3. asset management | 1,838 | 1,746 |
| 3.1. individual | 5,437 | 3,636 |
| 3.2. collective | 4,946 | 3,107 |
| 4. custody and administration of securities | 491 | 529 |
| 5. custodian bank | 1,749 | 1,658 |
| 6. placement of securities | | |
| 7. order taking | 17,273 | 10,048 |
| 8. advisory services | 8,142 | 8,838 |
| 8.1. regarding investments | | |
| 8.2. regarding financial structuring | | |
| 9. distribution of third-party services | | |
| 9.1. asset management | 13,453 | 11,819 |
| 9.1.1. individual | 367 | 334 |
| 9.1.2. collective | 367 | 334 |
| 9.2. insurance products | | |
| 9.3. other products | 10,007 | 9,808 |
| d) collection and payment services | 3,079 | 1,677 |
| e) servicing related to securitisation | 29,596 | 24,323 |
| f) services for factoring transactions | 83 | 29 |
| g) tax collection services | 155 | 170 |
| h) management of multilateral trading systems | | |
| i) maintenance and management of current accounts | 77,818 | 65,001 |
| j) other services | 23,456 | 22,552 |
| **Total** | **182,394** | **152,758** |

Commissions for “other services” include the management fees of the subsidiary Rovere Societé de Gestion for Euro 5,421 thousand and commissions for Euro 10,736 thousand arising from transactions on consumer credit of the subsidiary Fides S.p.A..

### 2.2 Commission expense: breakdown

| Services/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) guarantees received | -318 | -175 |
| b) credit derivatives | | |
| c) management and brokerage services | -2,158 | -1,427 |
| 1.trading in financial instruments | -116 | -147 |
| 2.trading in foreign exchange | | |
| 3.asset management | | |
| 3.1. own portfolio | | |
| 3.2. third-party | | |
| 4.custody and administration of securities | -1,306 | -1,278 |
| 5.placement of financial instruments | -736 | -483 |
| 6.offer of securities, financial products and services through financial promoters | | |
| d) collection and payment services | -4,431 | -3,083 |
| e) other services | -14,437 | -13,853 |
| **Total** | **-21,344** | **-19,019** |

Commissions expense for "other services" include placement fees paid by the subsidiary Rovere Societé de Gestion for Euro 1,388 thousand and commissions of Euro 12,022 thousand paid to financial intermediaries, Euro 11,021 thousand by the subsidiary Fides S.p.A. and Euro 1,001 thousand by the subsidiary Banca Popolare di Spoleto respectively.

## SECTION 3 - DIVIDENDS AND SIMILAR INCOME - CAPTION 70

### 3.1 Dividends and similar income: breakdown

| Caption/Income | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Dividends | Income from Mutual funds | Dividends | Income from Mutual funds |
| A. Financial assets held for trading | | | | |
| B. Financial assets available for sale | 299 | | 114 | |
| C. Financial assets designated at fair value through profit and loss | | | | |
| D. Equity investments | | | | |
| **Total** | **299** | | **114** | |

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

## SECTION 4 - NET TRADING INCOME - CAPTION 80

### 4.1 Net trading income: breakdown

| Transactions/Income components | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **19** | **649** | **-72** | **-16** | **580** |
| 1.1. Debt securities | | 310 | -72 | -9 | 229 |
| 1.2. Equity instruments | | 1 | | -6 | -5 |
| 1.3. Mutual funds | | 16 | | | 16 |
| 1.4. Loans | | | | | |
| 1.5. Other | 19 | 322 | | -1 | 340 |
| **2. Financial liabilities held for trading** | | | | | |
| 2.1. Debt securities | | | | | |
| 2.2. Payables | | | | | |
| 2.3. Other | | | | | |
| **3. Other financial assets and liabilities: exchange differences** | | | | | **3,369** |
| **4. Derivatives** | **3,768** | **1,048** | **-643** | **-841** | **3,361** |
| 4.2. Financial derivatives: | 3,768 | 1,048 | -643 | -841 | 3,332 |
| - On debt securities and interest rates | 485 | 1,044 | -625 | -836 | 68 |
| - On equities and equity indices | 3,283 | 4 | -18 | -5 | 3,264 |
| - On currency and gold | | | | | 29 |
| - Other | | | | | |
| 4.2. Credit derivatives | | | | | |
| **Total** | **3,787** | **1,697** | **-715** | **-857** | **7,310** |

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

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

## SECTION 5 - NET HEDGING GAINS (LOSSES) - CAPTION 90

### 5.1 Net hedging gains (losses): breakdown

| Income items/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Income relating to:** | | |
| A.1. Fair value hedges | 1,152 | 152 |
| A.2. Hedged financial assets (fair value) | 288 | 722 |
| A.3. Hedged financial liabilities (fair value) | 1,939 | 2,094 |
| A.4. Cash flow hedges | 3 | |
| A.5. Foreign currency assets and liabilities | | |
| **Total income from hedging activity (A)** | **3,382** | **2,968** |
| **B. Charges relating to:** | | |
| B.1. Fair value hedges | -2,925 | -2,768 |
| B.2. Hedged financial assets (fair value) | -1,606 | -706 |
| B.3. Hedged financial liabilities (fair value) | | |
| B.4. Cash flow hedges | -21 | -35 |
| B.5. Foreign currency assets and liabilities | | |
| **Total charges from hedging activity (B)** | **-4,552** | **-3,509** |
| **C. Net hedging gains (losses) (A-B)** | **-1,170** | **-541** |

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

## SECTION 6 - GAINS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

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

| Caption/Income items | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Net result | Gains | Losses | Net |
| **Financial assets** | | | | | | |
| 1. Due from banks | | -689 | -689 | | | |
| 2. Loans to customers | 388 | -1,614 | -1,226 | 61 | -1,695 | -1,634 |
| 3. Financial assets available for sale | 32,516 | -1,016 | 31,500 | 55,339 | -3,523 | 51,816 |
| 3.1. Debt securities | 29,364 | -881 | 28,483 | 55,323 | -3,493 | 51,830 |
| 3.2. Equity instruments | 2,165 | | 2,165 | 10 | | 10 |
| 3.3. Mutual funds | 987 | -135 | 852 | 6 | -30 | -24 |
| 3.4. Loans | | | | | | |
| 4. Financial assets held to maturity | | | | 12,428 | | 12,428 |
| **Total assets** | **32,904** | **-3,319** | **29,585** | **67,828** | **-5,218** | **62,610** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | | | | | | |
| 2. Due to customers | | | | | | |
| 3. Debt securities in issue | | | | | | |
| | 158 | -3,428 | -3,270 | 37 | -2,108 | -2,071 |
| **Total liabilities** | **158** | **-3,428** | **-3,270** | **37** | **-2,108** | **-2,071** |

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 doubtful 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 Mutual funds include the related tax credit.

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

## SECTION 7 - NET RESULTS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE - CAPTION 110

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

| Transactions/Income components | Capital gains (A) | Gains on disposal (B) | Capital losses (C) | Losses on disposal (D) | Net result [(A+B) - (C+D)] 31.12.2015 |
|---|---|---|---|---|---|
| **1. Financial assets** | | | | | |
| 1.1. Debt securities | | | | | |
| 1.2. Equity instruments | | | | | |
| 1.3. Mutual funds | | | | | |
| 1.4. Loans | | | | | |
| **2. Financial liabilities** | **139** | **11** | | **-10** | **140** |
| 2.1. Debt securities | 139 | 11 | | -10 | |
| 2.2. Due to banks | | | | | 140 |
| 2.3. Due to customers | | | | | |
| **3. Financial assets and liabilities in foreign currency: exchange differences** | | | | | |
| **4. Derivatives** | **160** | **24** | | **-545** | **-361** |
| **Total** | **299** | **35** | **-545** | **-10** | **-221** |

The net gains (losses) on financial assets and liabilities designated at *fair value* result from the difference between the *fair value* measurement of Group’s bonds, subject to “natural hedging” on the application of the *fair value option* and the corresponding financial derivatives.

They also include the net gains (losses) from trading in these bonds.

## SECTION 8 - NET IMPAIRMENT WRITE-DOWNS/WRITE-BACKS - CAPTION 130

### 8.1 Net impairment adjustments to loans and advances: breakdown

| Transactions/Income components | Write-downs (1) Specific | | Write-downs (1) Portfolio | Write-backs (2) Specific | | Write-backs (2) Portfolio | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Write-offs | Other | | A | B | A | B | | |
| A. Due from banks | | | | | | | | | |
| - Loans | | | | | | | | | |
| - Debt securities | | | | | | | | | |
| B. Loans to customers | | | | | | | | | |
| Non-performing loans acquired | | | | | | | | | |
| - Loans | | | | | | | | | -33 |
| - Debt securities | | | | | | | | | |
| Other receivables | | | | | | | | | |
| - Loans | -5,417 | -237,654 | -1,429 | 23,900 | 75,546 | | 1,625 | -143,429 | -150,461 |
| - Debt securities | | | | | | | | | |
| **C. Total** | **-5,417** | **-237,654** | **-1,429** | **23,900** | **75,546** | | **1,625** | **-143,429** | **-150,494** |

**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 value in the "Write-offs" column relates to losses from the write-off of doubtful loans.

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

- Doubtful loans for Euro 133,219 thousand (formerly Euro 113,752 thousand);
- Unlikely to pay loans for Euro 97,440 thousand (formerly Euro 76,403 thousand);
- Past due loans for Euro 6,995 thousand (formerly Euro 5,211 thousand).

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

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

"Other" specific write-backs relate to:

| | |
|---|---|
| - doubtful loans amortised in previous years | Euro 1,974 thousand |
| - collections of loans previously written down | Euro 25,171 thousand |
| - write-backs | Euro 48,401 thousand |

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

| Transactions/Income components | Write-downs (1) | | Write-backs (2) | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|
| | Specific | | Specific | | | |
| | Write-offs | Other | A | B | | |
| A. Debt securities | | | | | | |
| B. Equity instruments | | -384 | | | -384 | |
| C. Mutual funds | | | | | | |
| D. Loans to banks | | | | | | |
| E. Loans to customers | | | | | | |
| **F. Total** | | **-384** | | | **-384** | |

**Key**
A = Interest
B = Other write-backs

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

There were no net impairment adjustments to financial assets held to maturity in the years ended 31 December 2015 and 2014.

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

| Transactions/Income components | Write-downs (1) | | | Write-backs (2) | | | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Write-offs | Other | | A | B | A | B | | |
| A. Guarantees given | | -1,218 | -345 | | 549 | | 5 | -1,009 | 446 |
| B. Credit derivatives | | | | | | | | | |
| C. Commitments to disburse funds | | | | | | | | | |
| D. Other transactions | | | | | | | | | |
| **E. Total** | | **-1,218** | **-345** | | **549** | | **5** | **-1,009** | **446** |

## SECTION 11 - ADMINISTRATIVE COSTS - CAPTION 180

### 11.1 Payroll costs: breakdown

| Type of expense/Sectors | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1) Employees | -174,006 | -149,314 |
| a) Wages and salaries | -117,467 | -102,709 |
| b) Social security charges | -31,200 | -26,709 |
| c) Termination indemnities | | |
| d) Pension expenses | | |
| e) Provision for termination indemnities | -912 | -463 |
| f) Provision for post-retirement benefits and similar commitments: | -24 | |
| - defined contribution | -24 | |
| - defined benefit | | |
| g) Payments to external supplementary pension funds: | -11,829 | -9,815 |
| - defined contribution | -11,829 | -9,815 |
| - defined benefit | | |
| h) Equity-based payments | -182 | -315 |
| i) Other personnel benefits | -12,392 | -9,303 |
| 2) Other active employees | -688 | -571 |
| 3) Directors and auditors | -5,078 | -4,778 |
| 4) Retired personnel | | |
| **Total** | **-179,772** | **-154,663** |

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

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

### 11.2 Average number of employees by level

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1) Employees** | **2,405** | **2,473** |
| a) managers | 33 | 35 |
| b) middle managers | 1,101 | 1,123 |
| c) other employees | 1,271 | 1,315 |
| **2) Other personnel** | **7** | **10** |

### 11.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

### 11.4 Other personnel benefits

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provision for sundry charges | -7,624 | -4,253 |
| Contributions to healthcare fund | -2,075 | -1,341 |
| Training and instruction costs | 10 | -986 |
| Rent expense of property used by employees | -366 | -191 |
| Redundancy incentives | 498 | 445 |
| Other | -2,835 | -2,977 |
| **Total** | **-12,392** | **-9,303** |

The main components of the “Other” caption include company canteen costs for Euro 1,806 thousand and costs relating to insurance premiums for Euro 303 thousand.

### 11.5 Other administrative costs: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Indirect taxes and duties: | | |
| - Stamp duty | -27,262 | -24,575 |
| - Other | -5,430 | -5,871 |
| Other costs: | | |
| - IT expenses | -14,657 | -14,005 |
| - Lease of property and other assets | -14,736 | -13,620 |
| - Maintenance of buildings, furniture and equipment | (6,566) | -4,348 |
| - Post office and telegraph | -2,801 | -2,287 |
| - Telephone and data transmission | -5,197 | -5,099 |
| - Electricity, heating, w ater | (4,348) | -3,947 |
| - Cleaning services | -1,393 | -1,243 |
| - Printed matter, stationery and consumables | (1,451) | -813 |
| - Transport costs | -1,163 | -1,318 |
| - Surveillance and security | -2,111 | -1,555 |
| - Advertising | -2,237 | -1,554 |
| - Information and surveys | -2,067 | -1,511 |
| - Insurance premiums | -1,678 | -1,516 |
| - Legal fees | -6,894 | -6,636 |
| - Professional consulting fees | -10,380 | -10,462 |
| - Various contributions and donations | -328 | -213 |
| - Sundry expenses | -22,433 | -6,917 |
| **Total** | **-133,132** | -107,490 |

“Sundry expenses” include contributions paid to resolution funds and to protected deposits guarantee schemes, totaling Euro 12,821 thousand, Euro 2,564 thousand of expenses for registration of mortgages and injunctions and Euro 1,703 thousand of reimbursements to employees for travel expenses.

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

| Type of services | Party which provided the service | Recipient | Fees (in thousands of euro) |
|---|---|---|---|
| Audit | Deloitte & Touche S.p.A. | Banco di Desio e della Brianza S.p.A. | 191 |
| | Deloitte & Touche S.p.A. | Banca Popolare di Spoleto S.p.A. | 148 |
| | Deloitte & Touche S.p.A. | Fides S.p.A. | 27 |
| | Deloitte Audit Sàrl | Rovere Societé de Gestion S.A. | 17 |
| Attestation services | Deloitte & Touche S.p.A. | Banco di Desio e della Brianza S.p.A. | 19 |
| | Deloitte & Touche S.p.A. | Banca Popolare di Spoleto S.p.A. | 14 |
| Other services: | | | |
| - Review of translation of financial reports | Deloitte & Touche S.p.A. | Banco di Desio e della Brianza S.p.A. | 59 |
| - Methodological support for preparation of Asset Quality Review and Risk Management | Deloitte Consulting S.r.l. | Banco di Desio e della Brianza S.p.A. | 163 |
| | Deloitte Consulting S.r.l. | Banca Popolare di Spoleto S.p.A. | 81 |
| - Methodological support for migration of branches | Deloitte Consulting S.r.l. | Banco di Desio e della Brianza S.p.A. | 168 |
| - Methodological support for the EBA Business Model Assessment | Deloitte ERS S.r.l | Banco di Desio e della Brianza S.p.A. | 29 |
| - Fairness opinion as per art. 158 CFA | Deloitte & Touche S.p.A. | Banca Popolare di Spoleto S.p.A. | 120 |
| - Check of pro-forma figures and forecasts | Deloitte & Touche S.p.A. | Banca Popolare di Spoleto S.p.A. | 225 |
| **Total** | | | **1,261** |

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

## SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 190

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

| | Provision | Utilisations | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| Charges for legal disputes | -14,958 | 11,919 | -3,039 | 1,213 |
| Other | -2,657 | 762 | -1,895 | -1,447 |
| **Total** | **-17,615** | **12,681** | **-4,934** | **-234** |

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

The caption "other" mainly includes:

- the provision of Euro 790 thousand relating to the contribution to the solidarity fund for the restatement of the investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara introduced by the 2016 Stability Law;
- the provision of Euro 1,085 thousand of future costs relating to the bonds following the closure of the liquidation of the Swiss subsidiary C.P.C.

## SECTION 13 - NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT - CAPTION 200

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

| Assets/Income items | Depreciation (a) | Impairment adjustments (b) | Write-backs (C) | Net result (a+b+c) 31.12.2015 |
|---|---|---|---|---|
| A. Property, plant and equipment | | | | |
| A.1 Owned | -7,972 | | | -7,972 |
| - for business purposes | -7,955 | | | -7,955 |
| - for investment purposes | -17 | | | -17 |
| A.2 Held under finance leases | | | | |
| - for business purposes | | | | |
| - for investment purposes | | | | |
| **Total** | **-7,972** | | | **-7,972** |

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

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

## SECTION 14 - NET ADJUSTMENTS TO INTANGIBLE ASSETS - CAPTION 210

### 14.1 Net adjustments to intangible assets: breakdown

| Assets/Income items | Amortisation (a) | Impairment adjustments (b) | Write-backs (c) | Net result (a+b+c) 31.12.2015 |
|---|---|---|---|---|
| A. Property, plant and equipment | | | | |
| A.1 Owned | -1,661 | | | -1,661 |
| - *Generated internally* | | | | |
| - *Other* | *-1,661* | | | *-1,661* |
| A.2 Held under finance leases | | | | |
| **Total** | **-1,661** | | | **-1,661** |

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

## SECTION 15 - OTHER OPERATING CHARGES/INCOME - CAPTION 220

### 15.1 Other operating charges: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amortisation of leasehold improvements | -3,102 | -2,663 |
| Losses on disposal of property, plant and equipment | -22 | -50 |
| Charges on non-banking services | -4,220 | -1,182 |
| **Total** | **-7,344** | **-3,895** |

"Charges on non-banking services" include: the provision of Euro 1,016 thousand made by the subsidiary Fides, calculated using the pro rata basis with respect to the restatement of commission due to it, to be paid to customers who estinguished the loan agreement early in the years prior to 2015, costs relating to insurance deductibles and fraudulent withdrawals for Euro 168 thousand, expenses relating to transactions with customers for claims for Euro 205 thousand and out of period expenses not attributable to a specific item for Euro 989 thousand.

### 15.2 Other operating income: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Recovery of taxes from third parties | 29,547 | 26,82 |
| Recharge of costs of current accounts and deposits | 11,997 | 8,981 |
| Rental and leasing income | 71 | 85 |
| Other expense recoveries | 14,533 | 9,209 |
| Gains on disposal of property, plant and equipment | 75 | 98 |
| Other | 825 | 961 |
| **Total** | **57,048** | **46,154** |

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 8,868 thousand and other recoveries for various communications to customers of Euro 2,932 thousand.

"Other expense recoveries" include, in particular, recoveries of legal costs for doubtful loans of Euro 8,202 thousand, recoveries of investigation costs relating to various loans of Euro 1,400 thousand, the recovery of costs of appraisals in connection with mortgage loans of Euro 395 thousand and the recovery of sundry expenses relating to lease applications of Euro 721 thousand.

The caption "Other" includes, in particular, sundry out of period income of Euro 649 thousand.

## SECTION 16 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - CAPTION 240

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

| Income items/Segments | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1) Companies subject to joint control** | | |
| A. Income | | |
| 1. Revaluations | | |
| 2. Gains on disposal | | |
| 3. Write-backs | | |
| 4. Other income | | |
| B. Expenses | | |
| 1. Write-downs | | |
| 2. Impairment write-downs | | |
| 3. Losses on disposal | | |
| 4. Other charges | | |
| **Net result** | | |
| **2) Associates (subject to significant influence)** | | |
| A. Income | 10,764 | 10,706 |
| 1. Revaluations | 1,699 | 1,061 |
| 2. Gains on disposal | | |
| 3. Write-backs | | |
| 4. Other income | 9,065 | 9,645 |
| B. Losses | | |
| 1. Write-downs | | |
| 2. Impairment write-downs | | |
| 3. Losses on disposal | | |
| 4. Other charges | | |
| **Net result** | **10,764** | **10,706** |
| **Total** | **10,764** | **10,706** |

Caption "2) A.4 Other income" refers to the exchange rate difference recorded on the subsidiary Credito Privato Commerciale S.A. in liquidation following the conversion of the reporting currency of the company (from Swiss Franc to Euro) that took place on 1 October 2015, upon the substantial completion of the liquidation process of the same.

## SECTION 17 - NET GAINS (LOSSES) ARISING FROM THE FAIR VALUE MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - CAPTION 250

The Banco Desio Group does not have any property, plant and equipment or intangible assets measured at fair value.

## SECTION 18 - GOODWILL IMPAIRMENT

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

## SECTION 19 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 270

### 19.1 Gains (losses) on disposal of investments: breakdown

| Income items/Segments | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Property | 2 | 2,184 |
| - Gains on disposal | | 2,184 |
| - Losses on disposal | | |
| B. Other assets | 2 | -11 |
| - Gains on disposal | | 1 |
| - Losses on disposal | | -12 |
| **Net result** | **2** | **2,173** |

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

## SECTION 20 - INCOME TAXES ON CURRENT OPERATIONS - CAPTION 290

### 20.1 Income taxes on current operations: breakdown

| Income items/Segments | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Current taxes (-) | -24,389 | -45,840 |
| 2. Change in prior period income taxes (+/-) | 1,058 | 120 |
| 3. Reduction in current taxes (+) | | |
| 3. bis Reduction in current taxes for tax credits under Law 214/2011 (+) | | |
| 4. Change in deferred tax assets (+/-) | 14,907 | 38,228 |
| 5. Change in deferred tax liabilities (+/-) | 2,727 | -11,631 |
| **6. Income taxes for the period (-) ( -1+/-2+3+3bis+/-4+/-5)** | **-5,697** | **-19,123** |

Caption 2. "Change in prior period income taxes" recorded the following changes:

- increase of Euro 1,289 thousand relating to the reimbursement received from the Tax Authorities in connection with a claim made in 2009 by the Parent Company 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, 2005, 2006 and 2007;
- decrease of Euro 251 thousand relating to taxes paid by the subsidiary Banca Popolare di Spoleto S.p.A. for the 2012 tax return, with reference to write-backs on receivables. The amount is offset by the recognition of deferred tax assets shown in Table 14.3.

### 20.2 Reconciliation between the theoretical and current tax charge

| | IRES | | IRAP | |
|---|---|---|---|---|
| Result before taxes | 43,917 | | 43,917 | |
| Costs not deductible for IRAP purposes | | | 36,244 | |
| Revenue not taxable for IRAP purposes | | | -31,222 | |
| Sub-total | 43,917 | | 48,939 | |
| **Theoretical tax charge 27.5% IRES - 5.57% IRAP** | | **-12,077** | | **-2,726** |
| Temporary differences taxable in subsequent years | -430 | | -37 | |
| Temporary differences deductible in subsequent years | 57,945 | | 51,535 | |
| Reversal of prior year temporary differences | -8,868 | | -9,381 | |
| Differences that will not reverse in subsequent years | -18,844 | | -32,893 | |
| Taxable income | 73,720 | | 58,163 | |
| **Current taxes for the year 27.5% IRES - 5.57% IRAP** | | **-20,273** | | **-3,247** |

The reconciliation has been prepared only for Group companies resident in Italy, since, for the foreign companies there are no significant differences between the theoretical tax charge and the actual tax charge shown in the financial statements.

## SECTION 21 - PROFIT (LOSS) AFTER TAX ON NON-CURRENT ASSETS HELD FOR SALE - CAPTION 310

Zero balances at the reporting dates.

## SECTION 22 - MINORITY INTERESTS - CAPTION 330

### 22.1 Details of caption 330 “Minority interests”

| Company name | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Consolidated equity investments with significant minority interests** | | |
| Rovere | 36 | 57 |
| Banca Popolare Spoleto | -602 | -1,183 |
| SPV Spoleto Mortgages - Separate Assets | -8 | -48 |
| **Total** | **-574** | **-1,174** |

## SECTION 24 - EARNINGS PER SHARE

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Ordinary shares | Savings shares | Ordinary shares | Savings shares |
| Net profit of the Group attributable to the various classes of shares (thousands of euro) | 34,100 | 4,072 | 36,305 | 4,296 |
| 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)** | **0.29** | **0.31** | **0.31** | **0.33** |
| **Diluted earnings per share (Euro)** | **0.29** | **0.31** | **0.31** | **0.33** |

### 24.1 Average number of ordinary shares (fully diluted)

During the year, no operation was performed on share capital and any issues of financial instruments has been made, that could lead to the issue of shares; accordingly, the average number of shares used to calculate diluted earnings per share is equal to 117,000,000 ordinary shares and 13,202,000 savings shares.

### 24.2 Other information

There is no other information to be disclosed.

# PART D – CONSOLIDATED COMPREHENSIVE INCOME

## STATEMENT OF COMPREHENSIVE INCOME

| Captions | 31.12.2015 | | Net amount |
|---|---|---|---|
| | Gross amount | taxes | |
| **10. Net profit (loss) for the period** | | | **37,598** |
| **Other elements of income, without reversal to income statement** | | | |
| **20.** Property, plant and equipment | | | |
| **30.** Intangible assets | | | |
| **40.** Defined-benefit pension plans | | | |
| **50.** Non-current assets and disposal groups held for sale | 1,704 | -469 | 1,235 |
| **60.** Portion of the valuation reserves of the equity investments carried at equity | | | |
| **Other elements of income, with reversal to income statement** | | | |
| **70. Foreign investment hedges:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **80. Exchange differences:** | **-4,870** | | **-4,870** |
| a) changes in fair value | | | |
| b) reversal to income statement | -4,870 | | -4,870 |
| c) other changes | | | |
| **90. Cash-flow hedges:** | **94** | **-31** | **63** |
| a) changes in fair value | 94 | -31 | 63 |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **100. Financial assets available for sale:** | **-3,206** | **1,156** | **-2,050** |
| a) changes in fair value | 1,537 | -508 | 1,029 |
| b) reversal to income statement | -5,117 | 1,697 | -3,42 |
| - impairment adjustments | -10 | | -10 |
| - gains/losses on disposal | -5,107 | 1,697 | -3,410 |
| c) other changes | 374 | -33 | 341 |
| **110. Non-current assets and disposal groups held for sale:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **120. Portion of the valuation reserves of the equity investments carried at** | **-113** | | **-113** |
| a) changes in fair value | | | |
| b) reversal to income statement | -113 | | -113 |
| - impairment adjustments | | | |
| - gains/losses on disposal | | | |
| c) other changes | | | |
| **130. Total other elements of income** | **-6,391** | **656** | **-5,735** |
| **140. Total comprehensive income (Captions 10+130)** | | | **31,863** |
| **150. Total comprehensive income pertaining to minority interests** | | | **101** |
| **160. Total consolidated comprehensive income pertaining to Parent** | | | **31,964** |

# 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 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 as well as 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.

After Banca Popolare di Spoleto joined the Group, the Parent Company's risk management function initially coordinated the subsidiary's activities, interfacing with its equivalent function and, subsequently, from November 2014, took over these activities on the basis of a specific Service Agreement.

## SECTION 1 - RISKS FACED BY THE BANKING GROUP

## 1.1 Credit risk

### Qualitative information

#### 1. General aspects

The Group's lending activity has developed according to the guidelines of the Business Plan, 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. Therefore, 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 guarantees an adequate monitoring and management of credit risk, relying to the 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 the lending process preliminary activities, 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 the knowledge 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 collaterals 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 non performing loans and in ensuring appropriate provisions are made.

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

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

***2.3 Credit risk mitigation techniques***

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

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

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and case law, 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. Non-performing financial assets***

The Group has implemented the new definitions of non-performing financial assets in order to bring them into line with the concepts of "Non-Performing Exposures" and "Forbearance", introduced by implementing technical standards concerning 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.

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 non-performing loan, the original technical form and the type of collateral.

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

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

### Quantitative information

## A. CREDIT QUALITY

## A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

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

| Portfolio/Quality | Doubtful loans | Unlikely to pay | Past due non-performing loans | Past due performing loans | Other performing exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets available for sale | - | - | - | - | 1,789,314 | 1,789,314 |
| 2. Financial assets held to maturity | - | - | - | - | - | - |
| 3. Due from banks | - | - | - | - | 292,992 | 292,992 |
| 4. Loans to customers | 443,926 | 411,964 | 48,666 | 387,635 | 8,094,120 | 9,386,311 |
| 5. Financial assets designated at fair value through profit and loss | - | - | - | - | - | - |
| 6. Financial assets being sold | - | - | - | - | 1,882 | 1,882 |
| **Total 31.12.2015** | **443,926** | **411,964** | **48,666** | **387,635** | **10,178,308** | **11,470,499** |
| **Total 31.12.2014** | **426,631** | **383,069** | **44,266** | **482,423** | **10,437,402** | **11,773,791** |

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

| Portfolio/Quality | Non-performing loans | | | Performing loans | | | Total (Net exposure) |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific adjustments | Net exposure | Gross exposure | General portfolio adjustments | Net exposure | |
| 1. Financial assets available for sale | - | - | - | 1,789,314 | - | 1,789,314 | 1,789,314 |
| 2. Financial assets held to maturity | - | - | - | - | - | - | - |
| 3. Due from banks | - | - | - | 292,992 | - | 292,992 | 292,992 |
| 4. Loans to customers | 1,468,806 | -564,250 | 904,556 | | | | |
| 5. Financial assets designated at fair value through profit and loss | - | - | - | 8,539,212 | -57,457 | | |
| 6. Financial assets being sold | - | - | - | | | 8,481,755 | 9,386,311 |
| | | | | 1,882 | - | -1,882 | -1,882 |
| **Total 31.12.2015** | **1,468,806** | **-564,25** | **904,556** | **10,623,400** | **-57,457** | **10,565,943** | **11,470,499** |
| **Total 31.12.2014** | **1,244,446** | **-390,48** | **853,966** | **10,977,276** | **-57,452** | **10,919,824** | **11,773,790** |

| Portfolio/Quality | Assets with clear poor | | Other assets |
|---|---|---|---|
| | Accumulated losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | - | 15,638 |
| 2. Hedging derivatives | - | - | 4,601 |
| **Total 31.12.2015** | **-** | **-** | **20,239** |
| **Total 31.12.2014** | **-** | **-** | **25,594** |

At 31 December 2015 the amount of partial cancellations made on non-performing financial assets in the portfolio of Loans to customers amounted to Euro 104,804 thousand.

The portfolio of Loans to customers includes non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 31 December 2015 amounted to Euro 254,244 thousand. This difference essentially represents the writedowns made by the subsidiary BPS on non-performing loans before the acquisition date of control.

For a more accurate calculation of the credit risk indicators (coverage ratio), it should be noted that the total amount of gross non-performing loans at 31 December 2015 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to Euro 1,723 million and total writedowns to Euro 818 million.

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

| Types of exposure/Amounts | Gross exposure | | | | | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing loans | | | | Performing loans | | | |
| | Up to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | | | | |
| **A. CASH EXPOSURE** | | | | | | | | |
| a) Doubtful loans | - | - | - | - | - | - | - | - |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | - | - |
| b) Unlikely to pay | - | - | - | - | - | - | - | - |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | - | - |
| c) Past due non-performing loans | - | - | - | - | - | - | - | - |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | - | - |
| d) Past due performing loans | - | - | - | - | - | - | - | - |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | - | - |
| e) Other performing exposures | - | - | - | - | 369,210 | - | - | 369,210 |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | - | - |
| **TOTAL A** | **-** | **-** | **-** | **-** | **369,210** | **-** | **-** | **369,210** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | | | | |
| a) Non-performing | - | - | - | - | - | - | - | - |
| b) Performing | - | - | - | - | 25,030 | - | - | 25,030 |
| **TOTAL B** | **-** | **-** | **-** | **-** | **25,030** | **-** | **-** | **25,030** |
| **TOTAL (A+B)** | **-** | **-** | **-** | **-** | **394,240** | **-** | **-** | **394,240** |

### A.1.4 Banking Group - On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are none at the reporting date.

### A.1.5 Banking Group - Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

There are none at the reporting date.

### A.1.6 On- and off-balance sheet credit exposures to customrs: gross and net amounts and past due bands

| Types of exposure/Amounts | Gross exposure | | | | | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing loans | | | | Performing loans | | | |
| | Up to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | | | | |
| **A. CASH EXPOSURE** | | | | | | | | |
| a) Doubtful loans | 1,073 | 4,935 | 40,282 | 802,569 | | 404,933 | | 443,926 |
| - of which: exposures subject to forbearance | - | - | 490 | 9,108 | | 5,475 | | 4,123 |
| b) Unlikely to pay | 62,470 | 80,322 | 128,931 | 292,128 | | 151,887 | | 411,964 |
| - of which: exposures subject to forbearance | 29,488 | 25,508 | 39,751 | 113,445 | | 54,514 | | 153,678 |
| c) Past due non-performing loans | 11,654 | 27,115 | 15,312 | 2,015 | | 7,430 | | 48,666 |
| - of which: exposures subject to forbearance | 5,999 | 9,322 | 8,440 | 850 | | 3,458 | | 21,153 |
| d) Past due performing loans | | | | | 394,458 | | 6,823 | 387,635 |
| - of which: exposures subject to forbearance | | | | | 33,939 | | 856 | 33,083 |
| e) Other performing exposures | | | | | 9,862,598 | | 50,634 | 9,811,964 |
| - of which: exposures subject to forbearance | | | | | 131,175 | | 3,251 | 127,924 |
| **TOTAL A** | **75,197** | **112,372** | **184,525** | **1,096,712** | **10,257,056** | **564,250** | **57,457** | **11,104,155** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | | | | |
| a) Non-performing | 15,717 | - | - | - | | 877 | | 14,840 |
| b) Performing | | | | | 571,568 | | 1,296 | 570,272 |
| **TOTAL B** | **15,717** | **-** | **-** | **-** | **571,568** | **877** | **1,296** | **585,112** |
| **TOTAL (A+B)** | **90,914** | **112,372** | **184,525** | **1,096,712** | **10,828,624** | **565,127** | **58,753** | **11,689,267** |

The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 31 December 2015; details are provided below:

a) Doubtful loans: Euro 220,248 thousand;
b) Unlikely to pay: Euro 33,961 thousand;
c) Non-performing past due and/or overdrawn exposures: Euro 35 thousand.

### A.1.7 Banking Group - On-balance sheet credit exposures to customers: changes in gross non-performing loans

| Description/Categories | Doubtful loans | Unlikely to pay | Past due non-performing loans |
|---|---|---|---|
| **A. Opening gross exposure** | **697,797** | **496,977** | **49,672** |
| - of which: sold but not derecognised | 5,300 | 8,475 | 847 |
| **B. Increases** | **210,963** | **324,849** | **108,947** |
| B.1 transfers from performing positions | 8,921 | 191,341 | 101,365 |
| B.2 transfers from other categories of non-performing exposures | 164,792 | 47,055 | 347 |
| B.3 other increases | 37,250 | 86,453 | 7,235 |
| **C. Decreases** | **59,901** | **257,975** | **102,523** |
| C.1 transfers to performing positions | 6 | 13,200 | 30,917 |
| C.2 write-offs | 13,214 | 9 | - |
| C.3 collections | 46,572 | 80,992 | 22,805 |
| C.4 proceeds from disposal | 95 | - | - |
| C.5 losses on disposal | - | - | - |
| C.6 transfers to other categories of non-performing exposures | - | 163,393 | 48,801 |
| C.7 other decreases | 14 | 381 | - |
| **D. Closing gross exposure** | **848,859** | **563,851** | **56,096** |
| - of which: sold but not derecognised | 6,694 | 10,406 | 1,838 |

### A.1.7 bis Banking Group - On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

The information on changes in gross non-performing exposures subject to forbearance should be given starting from 31 December 2016.

### A.1.8 Banking Group - On-balance sheet credit exposures to customers: changes in total adjustments

| Description/Categories | Doubtful loans Total | Doubtful loans of which: exposures subject to forbearance | Unlikely to pay Total | Unlikely to pay of which: exposures subject to forbearance | Past due non-performing Total | Past due non-performing of which: exposures subject to forbearance |
|---|---|---|---|---|---|---|
| **A. Total opening adjustments** | **271,166** | **-** | **113,908** | **-** | **5,406** | **-** |
| - of which: sold but not derecognised | 2,420 | - | 2,105 | - | 94 | - |
| **B. Increases** | **188,861** | **-** | **118,889** | **-** | **8,147** | **-** |
| B.1 write-downs | 140,277 | - | 97,527 | - | 7,018 | - |
| B.2 losses on disposal | 1,396 | - | 216 | - | - | - |
| B.3 transfers from other categories of non-performing exposures | 45,156 | - | 2,714 | - | 94 | - |
| B.4 other increases | 2,032 | - | 18,432 | - | 1,035 | - |
| **C. Decreases** | **55,094** | **-** | **80,910** | **-** | **6,123** | **-** |
| C.1 measurement write-backs | 25,610 | - | 12,132 | - | 1,272 | - |
| C.2 writebacks on collection | 15,682 | - | 6,180 | - | 632 | - |
| C.3 gains on disposal | 115 | - | - | - | - | - |
| C.4 write-offs | 13,214 | - | 9 | - | - | - |
| C.5 transfers to other categories of non-performing exposures | - | - | 44,780 | - | 3,185 | - |
| C.6 other decreases | 473 | - | 17,809 | - | 1,034 | - |
| **D. Total closing adjustments** | **404,933** | **-** | **151,887** | **-** | **7,430** | **-** |
| - of which: sold but not derecognised | 2,806 | - | 2,401 | - | 241 | - |

**Note**
The information on changes in adjustments to exposures subject to forbearance should be given starting from 31 December 2016

## A.2 Classification of exposures on the basis of external and internal rating

### A.2.1 Banking Group - Distribution of cash and "off-balance sheet" exposures by external rating class

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

### A.2.2 Banking Group - Distribution of cash and "off-balance sheet" exposures by internal rating class

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

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

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

| Exposures at 31.12.2015 | Internal rating class | | | | |
|---|---|---|---|---|---|
| | from 1 to 4 | from 5 to 6 | from 7 to 10 | Financial and Institutional | Total |
| Cash exposures | 59.49% | 28.94% | 10.07% | 1.50% | 100% |
| Off-balance sheet exposures | 79.22% | 16.29% | 3.42% | 1.07% | 100% |

The two positions indicated relate to exposures towards the Italian Government relating to securities in portfolio, and Cassa di Compensazione e Garanzia.

## A.3 Distribution of guaranteed exposures by type of guarantee

### A.3.1 Banking Group - Guaranteed credit exposures to banks

There are none at the reporting date.

## A.3.2 Banking Group - Guaranteed credit exposures to customers

| | Amount of net exposures | Secured guarantees (1) | | | | Unsecured guarantees (2) | | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Credit derivatives | | | | | Endorsement credits | | | | |
| | | | | | | | Other derivatives | | | | | | | | |
| | | Property, Mortgages | Property under finance leases | Securities | Other secured guarantees | CLN | Government and central banks | Other public entities | Banks | Other parties | Government and central banks | Other public entities | Banks | Other parties | |
| 1. Guaranteed on-balance sheet exposures: | 6,345,295 | 4,132,873 | 250,241 | 230,799 | 231,399 | | | | | | | 84,121 | 347 | 1,348,990 | 6,278,770 |
| 1.1. totally guaranteed | 6,004,743 | 4,028,600 | 250,241 | 180,441 | 216,194 | | | | | | | 38,503 | 346 | 1,279,958 | 5,994,283 |
| *- of which: non-performing* | *697,256* | *539,770* | *19,100* | *2,079* | *13,108* | | | | | | | *186* | *92* | *120* | *694,335* |
| 1.2. partially guaranteed | 340,552 | 104,273 | | 50,358 | 15,205 | | | | | | | 45,618 | 1 | 69,032 | 284,487 |
| *- of which: non-performing* | *119,223* | *100,682* | | *1,280* | *3,035* | | | | | | | *725* | | *10,341* | *116,063* |
| 2. Guaranteed off-balance sheet exposures: | 201,139 | 11,804 | | 22,850 | 26,955 | | | | | | | 5,821 | 2,296 | 120,929 | 190,655 |
| 2.1. totally guaranteed | 177,506 | 11,804 | | 18,202 | 23,723 | | | | | | | 5,821 | 1,631 | 116,213 | 177,394 |
| *- of which: non-performing* | *12,056* | *13* | | *107* | *2,365* | | | | | | | | | *9,571* | *12,056* |
| 2.2. partially guaranteed | 23,633 | | | 4,648 | 3,232 | | | | | | | | 665 | 4,716 | 13,261 |
| *- of which: non-performing* | *49* | | | *38* | *2* | | | | | | | | | *4* | *44* |

# B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

## B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

### P.1

| Exposures/Counterparties | Governments | | | Other public entities | | | Financial companies | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments |
| **A. Cash exposures** | | | | | | | | | |
| A.1 Doubtful loans | - | - | | - | -3 | | 490 | -960 | |
| - of which: exposures subject to forbearance | - | - | | - | - | | - | - | |
| A.2 Unlikely to pay | - | - | | 97 | -290 | | 355 | -308 | |
| - of which: exposures subject to forbearance | - | - | | - | - | | 67 | -100 | |
| A.3 Past due non-performing loans | - | - | | - | - | | 23 | -3 | |
| - of which: exposures subject to forbearance | - | - | | - | - | | - | - | |
| A.4 Performing loans | 1,732,319 | | - | 3,795 | | -6 | 136,851 | | -1,192 |
| - of which: exposures subject to forbearance | - | | - | - | | - | 1,498 | | -57 |
| **Total A** | **1,732,319** | **-** | **-** | **3,892** | **-293** | **-6** | **137,719** | **-1,271** | **-1,192** |
| **B. Off-balance sheet exposures** | | | | | | | | | |
| B.1 Doubtful loans | - | - | | - | - | | - | - | |
| B.2 Unlikely to pay | - | - | | - | - | | - | - | |
| B.3 Other non-performing loans | - | - | | - | - | | - | - | - |
| B.4 Performing loans | 418 | | - | 19,374 | | - | 2,347 | | -186 |
| **Total B** | **418** | **-** | **-** | **19,374** | **-** | **-** | **2,347** | **-** | **-186** |
| **Total (A+B) 31.12.2015** | **1,732,737** | **-** | **-** | **23,266** | **-293** | **-6** | **140,066** | **-1,271** | **-1,378** |
| **Total (A+B) 31.12.2014** | **1,790,446** | **-** | **-** | **28,654** | **-268** | **-339** | **863,678** | **-601,651** | **-922** |

## B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

### P.2

| Exposures/Counterparties | Insurance companies | | | Non-financial companies | | | Other parties | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments |
| **A. Cash exposures** | | | | | | | | | |
| A.1 Doubtful loans | - | - | | 334,089 | -516,333 | | 109,347 | -107,885 | |
| - of which: exposures subject to forbearance | - | - | | 3,316 | -4,531 | | 807 | -944 | |
| A.2 Unlikely to pay | - | - | | 312,668 | -150,653 | | 98,844 | -34,597 | |
| - of which: exposures subject to forbearance | - | - | | 118,465 | -43,903 | | 35,146 | -10,511 | |
| A.3 Past due non-performing loans | - | - | | 36,295 | -5,666 | | 12,348 | -1,796 | |
| - of which: exposures subject to forbearance | - | - | | 16,611 | -2,711 | | 4,542 | -747 | |
| A.4 Performing loans | 2,823 | | -1 | 5,570,955 | | -49,208 | 2,752,856 | | -7,050 |
| - of which: exposures subject to forbearance | - | | - | 124,520 | | -3,720 | 34,989 | | -330 |
| **Total A** | **2,823** | **-** | **-1** | **6,254,007** | **-672,652** | **-49,208** | **2,973,395** | **-144,278** | **-7,050** |
| **B. Off-balance sheet exposures** | | | | | | | | | |
| B.1 Doubtful loans | - | - | | 1,404 | -15 | | 33 | -14 | |
| B.2 Unlikely to pay | - | - | | 8,741 | -802 | | 192 | -44 | |
| B.3 Other non-performing loans | - | - | | 3,894 | -2 | | 53 | - | |
| B.4 Performing loans | 938 | | -11 | 355,945 | | -1,084 | 39,326 | | -15 |
| **Total B** | **938** | **-** | **-11** | **369,984** | **-819** | **-1,084** | **39,604** | **-58** | **-15** |
| **Total (A+B) 31.12.2015** | **3,761** | **-** | **-12** | **6,623,991** | **-673,471** | **-50,292** | **3,012,999** | **-144,336** | **-7,065** |
| **Total (A+B) 31.12.2014** | **6,076** | **-** | **-10** | **6,279,250** | **-149,011** | **-49,605** | **3,043,403** | **-41,788** | **-7,529** |

## B.2 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

| Exposures/Geographical areas | Italy | | Other European | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Cash exposure** | | | | | | | | | | |
| A.1 Doubtful loans | 442,491 | -624,546 | 1,394 | -568 | 2 | -17 | - | - | 39 | -50 |
| A.2 Unlikely to pay | 411,739 | -185,821 | 225 | -25 | - | - | - | - | - | -2 |
| A.3 Past due non-performing loans | 48,629 | -7,463 | 37 | -2 | - | - | - | - | - | - |
| A.4 Performing loans | 10,108,237 | -57,358 | 89,638 | -95 | 1,487 | -3 | 234 | -1 | 3 | - |
| **Total A** | **11,011,096** | **-875,188** | **91,294** | **-690** | **1,489** | **-20** | **234** | **-1** | **42** | **-52** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Doubtful loans | 1,437 | -29 | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | 8,933 | -846 | - | - | - | - | - | - | - | - |
| B.3 Other non-performing loans | 3,947 | -2 | - | - | - | - | - | - | - | - |
| B.4 Performing loans | 418,243 | -1,296 | 72 | - | - | - | - | - | - | - |
| **Total B** | **432,560** | **-2,173** | **72** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B) 31.12.2015** | **11,443,656** | **-877,361** | **91,366** | **-690** | **1,489** | **-20** | **234** | **-1** | **42** | **-52** |
| **Total (A+B) 31.12.2014** | **11,944,338** | **-850,182** | **16,044** | **-793** | **1,748** | **-2** | **253** | **-** | **6** | **-144** |

## B.3 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

| Exposures/Geographical areas | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Cash exposure** | | | | | | | | | | |
| A.1 Doubtful loans | - | - | - | - | - | - | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| A.3 Past due non-performing loans | - | - | - | - | - | - | - | - | - | - |
| A.4 Performing loans | 308,491 | - | 55,605 | - | 2,342 | - | 2,496 | - | 276 | - |
| **Total A** | **308,491** | **-** | **55,605** | **-** | **2,342** | **-** | **2,496** | **-** | **276** | **-** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Doubtful loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| B.3 Other non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.4 Performing loans | 20,013 | - | 1,968 | - | 241 | - | 2,754 | - | 54 | - |
| **Total B** | **20,013** | **-** | **1,968** | **-** | **241** | **-** | **2,754** | **-** | **54** | **-** |
| **Total (A+B) 31.12.2015** | **328,504** | **-** | **57,573** | **-** | **2,583** | **-** | **5,250** | **-** | **330** | **-** |
| **Total (A+B) 31.12.2014** | **489,584** | **-** | **79,973** | **-** | **1,932** | **-** | **1,135** | **-** | **686** | **-** |

## B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2015 is reported below:

| Description | Nominal amount | Weighted amount | Number of positions |
|---|---|---|---|
| Major risks | 2,095,997 | 180,361 | 2 |

The two positions indicated relate to exposures towards the Italian Government relating to securities in portfolio and tax assets, and Cassa di Compensazione e Garanzia.

# C. SECURITISATION TRANSACTIONS

## C.1 Securitisation transactions

### Qualitative information

The information in this Part applies to transactions entered into by the subsidiary Banca Popolare di Spoleto S.p.A.

In 2003, Banca Popolare di Spoleto has put in place as originator, pursuant to Law 130/99, a securitisation of "performing" loans sold to the SPV "Spoleto Mortgages Srl". The transaction was completed with retroactive effect in 2004.

It should also be noted that on 9 December 2011, the Bank has completed a self-securitisation in relation to which BPS subscribed all securities issued by the SPV. For the description of this last operation, please refer to the detail provided in Section 3 "Liquidity Risk" in accordance with the instructions of Circular 262 of the Bank of Italy.

**Junior securities and subordinated loans**

1) Excess spread (Deferred Purchase Price)

   Amount at 31.12.2015: € 3,895 thousand

2) Subordinated loan in current account

   Amount at 31.12.2015: 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 31.12.2015: € 13,537 thousand

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 S.p.A (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 31.12.2015 the SPV has repaid 100% 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 € 4,134 thousand

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 S.p.A 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). This swap is registered in the trading portfolio of Banca Popolare di Spoleto.

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.

The preliminary activities required to close this transaction were carried out during the year, which included granting to the Representative of the Noteholders (RON) a surety with which the Bank agreed to indemnify the Representative against any damages, losses and costs arising from actions, complaints or requests received after the signing of the letter of consent to the loan retrocession contract. Having obtained the assent of the RON on 23 December 2015 and in accordance with the period of 60 days prior to the closing, a “Notice of early redemption of the Notes and termination of the related Transaction Documents” was then published in which information was given on the early closure of the transaction and repayment of the outstanding securities at par value. Closure will take place on 25.2.2016, the payment date.

The decision to proceed to early closure of the transaction is attributable to criteria of cost effectiveness, given the residual value of the loans, not significant to dated. As regards the credit for the deferred price (excess spread) of Euro 3.9 million, following the positive trend of the securitisation, the same is deemed fully recoverable.

## Servicing

### Servicing performing loans

As regards the securitisation of performing loans, Banca Popolare di Spoleto S.p.A 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.

## Quantitative information

## C.1 Banking Group - Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

| Type of securitised assets/Exposures | Cash exposures | | | | | | Guarantees given | | | | | | Lines of credit | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Adjustments/write-backs | Book value | Adjustments/write-backs | Book value | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs |
| **C. Not derecognised**<br>Spoleto Mortgages S.r.l.<br>Mortgage loans secured by 1st degree mortgage on residential property | | | | | 3,895 | | | | | | | | | | | | | |

## C.2 Banking Group - Exposures arising from principal "third party" securitisations broken down by type of securitised asset and by type of exposure

| Type of underlying assets/Exposures | Cash exposures | | | | | | Guarantees given | | | | | | Lines of credit | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Adjustments/write-backs | Book value | Adjustments/write-backs | Book value | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs | Net exposure | Adjustments/write-backs |
| A.1 F.I.P 26.04.25<br>- PROPERTY | 538 | 3 | | | | | | | | | | | | | | | | |

## C.3 Banking Group - Interests in securitisation SPVs

| Name of securitisation/SPV | Registered office | Consolidation | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|
| | | | Loans and receivables | Debt securities | Other | Senior | Mezzanine | Junior |
| Spoleto Mortgages S.r.l. | Via V. Alfieri, 1 - Conegliano (TV) | n/a (*) | 16,521 | - | 3 | | 4,134 | 7,246 |

(*) only the Separate Assets for which the requirements of effective control apply.

## C.4 Banking Group - Non-consolidated securitisation SPVs

There are none at the reporting date.

## C.5 Banking Group - Servicer activity - own securitisations: collection of securitised loans and redemptions of the securities issued by the securitisation SPV

| Servicer | SPV | Securitised assets (end of period) | | Collections of loans during the year | | Percentage of securities redeemed (end of period) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Senior | | Mezzanine | | Junior | |
| | | Non-performing | Performing | Non-performing | Performing | Non-performing assets | Performing assets | Non-performing assets | Performing assets | Non-performing assets | Performing assets |
| Banca Popolare di Spoleto S.p.A. | Spoleto Mortgages S.r.l. | 2,920 | 10,617 | - | 4,759 | - | 94.50% | - | 0.00% | - | 0.00% |

## C.6 Banking Group - Consolidated securitisation SPVs

Information relating to the consolidated SPV is provided under “Qualitative information” in the preceding paragraph C.1.

## E. ASSET DISPOSALS

### A. Financial assets sold and not fully derecognised

### Qualitative information

The figures described in this section entirely relate to “repurchase agreements” with ordinary customers.

Assets (table E.1) include the fair value and the book portfolio of debt securities used as “guarantee” in such transactions; liabilities (table E.2) include the present value of amounts due to customers generated by such funding transactions.

Transferred assets (which continue to be fully recognised in the financial statements) can not be used by the Group in other transactions of this type, nor be sold before the expiry of “repurchase agreements”.

The Group, as in all the transactions in question, is exposed to counterparty risk, being the risk that the lending party does not return, at maturity, the underlying notional.

**Quantitative information**

## E.1 Banking Group - Financial assets sold but not derecognised: book value and full value

**P.1**

| Technical forms/Portfolio | Financial assets held for trading | | | Financial assets designated at fair value through profit and loss | | |
|---|---|---|---|---|---|---|
| | A | B | C | A | B | C |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | | | | | | |
| 2. Equity instruments | | | | | | |
| 3. Mutual funds | | | | | | |
| 4. Loans | | | | | | |
| **B. Derivatives** | | | | | | |
| **Total 31.12.2015** | | | | | | |
| *of which: non-performing* | | | | | | |
| **Total 31.12.2014** | | | | | | |
| *of which: non-performing* | | | | | | |

## E.1 Banking Group - Financial assets sold but not derecognised: book value and full value

**P.2**

| Technical forms/Portfolio | Financial assets available for sale | | | Financial assets held to maturity | | |
|---|---|---|---|---|---|---|
| | A | B | C | A | B | C |
| **A. Cash assets** | **208,447** | | | | | |
| 1. Debt securities | 208,447 | | | | | |
| 2. Equity instruments | | | | | | |
| 3. Mutual funds | | | | | | |
| 4. Loans | | | | | | |
| **B. Derivatives** | | | | | | |
| **Total 31.12.2015** | **208,447** | | | | | |
| *of which: non-performing* | | | | | | |
| **Total 31.12.2014** | **158,178** | | | | | |
| *of which: non-performing* | | | | | | |

## E.1 Banking Group - Financial assets sold but not derecognised: book value and full value

**P.3**

| Technical forms/Portfolio | Due from banks | | | Loans to customers | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | 31.12.2015 | 31.12.2014 |
| **A. Cash assets** | | | | | | | **208,447** | **165,836** |
| 1. Debt securities | | | | | | | 208,447 | 165,836 |
| 2. Equity instruments | | | | | | | | |
| 3. Mutual funds | | | | | | | | |
| 4. Loans | | | | | | | | |
| **B. Derivatives** | | | | | | | | |
| **Total 31.12.2015** | | | | | | | **208,447** | |
| *of which: non-performing* | | | | | | | | |
| **Total 31.12.2014** | **6,584** | **1,074** | | | | | | **165,836** |
| *of which: non-performing* | | | | | | | | |

**Key**
A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

## E.2 Banking Group - Financial liabilities pertaining to financial assets sold but not derecognised: book value

| Liabilities/Portfolio assets | Financial assets held for trading | Financial assets designated at fair value through profit and loss | Financial assets available for sale | Financial assets held to maturity | Due from banks | Loans to customers | Total |
|---|---|---|---|---|---|---|---|
| **1. Due to customers** | | | **152,105** | | | | **152,105** |
| a) pertaining to assets recognised in full | | | 152,105 | | | | 152,105 |
| b) pertaining to assets recognised in part | | | | | | | |
| **2. Due to banks** | | | | | | | |
| a) pertaining to assets recognised in full | | | | | | | |
| b) pertaining to assets recognised in part | | | | | | | |
| **3. Debt securities in issue** | | | | | | | |
| a) pertaining to assets recognised in full | | | | | | | |
| b) pertaining to assets recognised in part | | | | | | | |
| **Total 31.12.2015** | | | **152,105** | | | | **152,105** |
| **Total 31.12.2014** | | | **157,830** | | **7,922** | | **165,752** |

## F. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

Group companies do not use internal portfolio models for measuring exposure to credit risk.

## 1.2 BANKING GROUP - MARKET RISK

### 1.2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

#### Qualitative information

**A. General aspects**

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the bank to changes in the economic value of assets and liabilities.
The information in this section refers only to 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 stipulated for trading purposes are excluded from the analysis; in any case, they are treated in the same way as brokerage. The VaR of equities is measured by taking into account the relationship (so-called "beta coefficient") that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).
Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.
The internal model is not used in the calculation of capital requirements for market risk.

## Quantitative information

### 1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Euro

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **-** | **1,276** | **-** | **3** | **99** | **1** | **1,488** | **-** |
| 1.1 Debt securities | - | 1,276 | - | 3 | 99 | 1 | 1,488 | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | 1,276 | - | 3 | 99 | 1 | 1,488 | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repurchase agreements | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | 89 | 1,099 | 9,254 | 38,996 | - | - |
| + Short positions | - | - | 89 | 241 | 8,337 | 40,771 | - | - |
| - Other | | | | | | | | |
| + Long positions | - | 263,801 | 7,726 | 3,479 | 16,283 | - | 1,095 | - |
| + Short positions | 7,321 | 258,307 | 12,317 | 4,635 | 4,274 | 1,649 | 4,046 | - |

### 1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repurchase agreements | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other | | | | | | | | |
| + Long positions | - | 242,798 | 7,146 | 3,532 | 1,570 | - | - | - |
| + Short positions | - | 242,578 | 7,146 | 3,532 | 1,570 | - | - | - |

### 2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Exposures of the group in listed equity instruments are marginal at the reporting date.

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

The monitoring of the “trading portfolio reported for supervisory purposes” in 2015 evidenced a structure with limited market risks. Related VaR at 31.12.2015 amounted to € 0.117 million, with a percentage of 3.16% of the trading portfolio. The scenario analyses carried out 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, at 31.12.2015 show a negative impact of € 0.274 million.

## 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 Italian 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 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 GapAnalysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.
The analyses are performed through parallel shifts in the yield curve. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

#### B. Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group uses fair value hedges and solely on behalf of the Italian banks in the Group, in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.
To date, hedged instruments relate to both assets (fixed rate mortgage loans granted) and liabilities (bonds issued). As regards assets, various types of hedges represented by Group micro and macro hedges as well as specific micro-hedges have been implemented. As regards liabilities, on the other hand, all hedging involves specific micro-hedges.
For hedging, we use derivatives represented by unlisted securities - mainly interest rate swaps and interest rate options - but only to hedge interest rate risk.
The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.
The Group applies the fair value option for certain types of bonds, with the aim of making the entire fair value of the financial instrument more reliable and representative.

#### C. Cash flow hedges

The Group uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.
To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.
For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.
The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

## Quantitative information

### 1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Euro

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **1,792,969** | **6,012,533** | **803,480** | **380,808** | **1,820,203** | **387,176** | **155,295** | **3,395** |
| 1.1 Debt securities | 1,003 | 195,750 | 489,337 | 191,435 | 830,480 | 64,270 | 28,093 | - |
| - with early redemption option | - | 17,666 | - | - | - | - | - | - |
| - other | 1,003 | 178,084 | 489,337 | 191,435 | 830,480 | 64,270 | 28,093 | - |
| 1.2 Loans to banks | 75,028 | 143,814 | - | - | - | - | - | - |
| 1.3 Loans to customers | 1,716,938 | 5,672,969 | 314,143 | 189,373 | 989,723 | 322,906 | 127,202 | 3,395 |
| - current accounts | 972,802 | 771,740 | 2,988 | 5,116 | 63,837 | 563 | - | - |
| - other loans | 744,136 | 4,901,229 | 311,155 | 184,257 | 925,886 | 322,343 | 127,202 | 3,395 |
| - with early redemption option | 191,473 | 4,247,519 | 256,614 | 106,600 | 324,856 | 126,129 | 126,702 | - |
| - other | 552,663 | 653,710 | 54,541 | 77,657 | 601,030 | 196,214 | 500 | 3,395 |
| **2. Cash liabilities** | **6,020,265** | **2,204,981** | **454,240** | **458,670** | **1,578,911** | **64,320** | **14,756** | **-** |
| 2.1 Due to customers | 5,794,662 | 1,673,646 | 265,360 | 267,840 | 87,760 | 7,020 | 11,762 | - |
| - current accounts | 5,604,584 | 1,515,753 | 263,035 | 260,194 | 74,132 | - | - | - |
| - other payables | 190,078 | 157,893 | 2,325 | 7,646 | 13,628 | 7,020 | 11,762 | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 190,078 | 157,893 | 2,325 | 7,646 | 13,628 | 7,020 | 11,762 | - |
| 2.2 Due to banks | 193,838 | - | - | - | 551,009 | - | - | - |
| - current accounts | 22,129 | - | - | - | - | - | - | - |
| - other payables | 171,709 | - | - | - | 551,009 | - | - | - |
| 2.3 Debt securities | 31,765 | 531,335 | 188,880 | 190,830 | 940,142 | 57,300 | 2,994 | - |
| - with early redemption option | - | 18,765 | - | - | - | - | - | - |
| - other | 31,765 | 512,570 | 188,880 | 190,830 | 940,142 | 57,300 | 2,994 | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 32 | 388 | - | 80 | - | - | - |
| + Short positions | - | 489 | - | - | 12 | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | 39,040 | 34,850 | 75,687 | 343,127 | 123,505 | 30,316 | - |
| + Short positions | 19,292 | 372,866 | 23,640 | 50,525 | 93,697 | 86,330 | 175 | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 283,119 | 981 | 34,617 | 23,511 | - | - | - |
| + Short positions | 1,790 | 195,382 | 477 | 780 | 4,267 | 132,452 | 7,077 | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 62,680 | - | - | - | - | - | - | - |
| + Short positions | 62,680 | - | - | - | - | - | - | - |

### 1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

OTHER CURRENCIES

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **43,489** | **63,619** | **6,292** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Loans to banks | 41,556 | 21,500 | 1,903 | - | - | - | - | - |
| 1.3 Loans to customers | 1,933 | 42,119 | 4,389 | - | - | - | - | - |
| - current accounts | 722 | - | - | - | - | - | - | - |
| - other loans | 1,211 | 42,119 | 4,389 | - | - | - | - | - |
| - with early redemption option | 965 | 6,937 | 2,342 | - | - | - | - | - |
| - other | 246 | 35,182 | 2,047 | - | - | - | - | - |
| **2. Cash liabilities** | **100,973** | **7,994** | **1,903** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Due to customers | 100,708 | - | 1,903 | - | - | - | - | - |
| - current accounts | 100,708 | - | 1,903 | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.2 Due to banks | 265 | 7,994 | - | - | - | - | - | - |
| - current accounts | 4 | - | - | - | - | - | - | - |
| - other payables | 261 | 7,994 | - | - | - | - | - | - |
| 2.3 Debt securities | | | | | | | | |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 919 | - | - | - | - | - | - |
| + Short positions | - | 919 | - | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | - | 4,421 | - | - | - | - | - | - |
| + Short positions | - | 4,421 | - | - | - | - | - | - |

**2. Banking book: internal models and other methodologies for the analysis of sensitivity**

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

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations.

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 31 December 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 31.12.2015

| | **+100 bps** | **-100 bps** |
|---|---|---|
| % of the expected margin | 1.61% | -13.39% |
| % of net interest and other banking income | 0.89% | -7.41% |
| % of result for the year | 9.33% | -77.87% |
| % of shareholders' equity | 0.40% | -3.31% |

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure at 31 December 2015 that has been maintained at levels that do not significantly impact total capital.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2015

| | **+100 bps** | **-100 bps** |
|---|---|---|
| % of the economic value | -3.33% | 3.07% |

## 1.2.3. Exchange risk

### Qualitative information

**A. General aspects, management and measurement of exchange risk**

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.
The exposure to exchange risk is marginal. As regards only the Italian banks, forex operations are managed by the Operations Room of the Parent Company's Finance Department.
Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency.
In addition, daily and yearly stop-loss operating limits have been set.

**B. Hedging of exchange risk**

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

## Quantitative information

### 1. Distribution by currency of denomination of assets, liabilities and derivatives

| Captions | US Dollar | Pound Sterling | Yen | Swiss Franc | Other currencies |
|---|---|---|---|---|---|
| **A. Financial assets** | **93,456** | **4,078** | **4,63** | **5,377** | **5,271** |
| A.1 Debt securities | | | | | |
| A.2 Equity instruments | | | | | |
| A.3 Loans to banks | 56,051 | 2,839 | 718 | 1,881 | 2,948 |
| A.4 Loans to customers | 37,405 | 1,239 | 3,912 | 3,496 | 2,323 |
| A.5 Other financial assets | | | | | |
| **B. Other assets** | **1,333** | **285** | **15** | **225** | **65** |
| **C. Financial liabilities** | **122,370** | **5,931** | **4,206** | **3,516** | **6,578** |
| C.1 Due to banks | 29,683 | 1,928 | 4,122 | 837 | 3,693 |
| C.2 Due to customers | 92,687 | 4,003 | 84 | 2,679 | 2,885 |
| C.3 Debt securities | | | | | |
| C.4 Other financial liabilities | | | | | |
| **D. Other liabilities** | **865** | **87** | | **109** | **19** |
| **E. Financial derivatives** | | | | | |
| Options | | | | | |
| Long positions | | | | | |
| Short positions | | | | | |
| Other | | | | | |
| + Long positions | 187,153 | 49,289 | 4,327 | 11,596 | 6,948 |
| + Short positions | 187,676 | 49,201 | 4,327 | 11,555 | 6,981 |
| **Total assets** | **281,942** | **53,652** | **8,972** | **17,198** | **12,284** |
| **Total liabilities** | **-310,911** | **-55,219** | **-8,533** | **-15,18** | **-13,578** |
| **Net balance (+/-)** | **-28,969** | **-1,567** | **439** | **2,018** | **-1,294** |

### 2. Internal models and other methodologies for the analysis of sensitivity

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

## 1.2.4 Derivative instruments

### A. Financial derivatives

**A.1 Regulatory trading book: notional values at the end of period**

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **46,601** | | **59,537** | |
| a) Options | 7,344 | | 8,936 | |
| b) Swap | 39,257 | | 50,601 | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **2. Equities and equity indices** | **11** | | **36** | |
| a) Options | 11 | | 36 | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **3. Currency and gold** | **504,821** | | **290,920** | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | 504,821 | | 290,920 | |
| d) Futures | | | | |
| e) Other | | | | |
| **4. Commodities** | | | | |
| **5. Other underlyings** | | | | |
| **Total** | **551,422** | **11** | **350,457** | **36** |

**A.2 Banking book: period-end notional values**

**A.2.1 Hedging**

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **330,506** | **-** | **139,852** | **-** |
| a) Options | 12,038 | - | 13,749 | - |
| b) Swap | 318,468 | - | 126,103 | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equities and equity indices** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swap | - | - | - | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Currency and gold** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swap | - | - | - | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlyings** | **-** | **-** | **-** | **-** |
| **Total** | **330,506** | **-** | **139,852** | **-** |

### A.2.2 Other derivatives

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **68,700** | **-** | **68,700** | **-** |
| a) Options | 45,800 | - | 45,800 | - |
| b) Swap | 22,900 | - | 22,900 | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equities and equity indices** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swap | - | - | - | - |
| c) Forward | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Currency and gold** | **1,837** | **-** | **3,789** | **-** |
| a) Options | - | - | - | - |
| b) Swap | - | - | - | - |
| c) Forward | 1,837 | - | 3,789 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlyings** | **-** | **-** | **-** | **-** |
| **Total** | **70,537** | **-** | **72,489** | **-** |

**A.3 Financial derivatives: positive gross fair value – breakdown by product**

| Portfolio/Type of derivatives | Positive fair value | | | |
|---|---|---|---|---|
| | 31.12.2015 | | 31.12.2014 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **A. Trading portfolio for supervisory purposes** | **11,759** | **11** | **8,352** | **36** |
| a) Options | 10 | 11 | 49 | 36 |
| b) Interest rate sw aps | 9,689 | | 6,161 | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | 2,060 | | 2,142 | |
| f) Futures | | | | |
| g) Other | | | | |
| **B. Banking book - hedging** | **4,601** | | **8,372** | |
| a) Options | 25 | | 20 | |
| b) Interest rate sw aps | 4,276 | | 8,352 | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **C. Banking book - other derivatives** | **1** | | **1,488** | |
| a) Options | | | | |
| b) Interest rate sw aps | 995 | | 1,339 | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | 5 | | 149 | |
| f) Futures | | | | |
| g) Other | | | | |
| **Total** | **17,360** | **11** | **18,212** | **36** |

**A.4 Financial derivatives: positive gross fair value – breakdown by product**

| Portfolio/Type of derivatives | Negative fair value | | | |
|---|---|---|---|---|
| | 31.12.2015 | | 31.12.2014 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **A. Trading portfolio for supervisory purposes** | **5,148** | | **3,146** | |
| a) Options | 4 | | 12 | |
| b) Interest rate sw aps | 3,128 | | 1,010 | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | 2,016 | | 2,124 | |
| f) Futures | | | | |
| g) Other | | | | |
| **B. Banking book - hedging** | **24,758** | | **6,717** | |
| a) Options | | | | |
| b) Interest rate sw aps | 24,758 | | 6,717 | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **C. Banking book - other derivatives** | | | **113** | |
| a) Options | | | | |
| b) Interest rate sw aps | | | | |
| c) Cross currency sw aps | | | | |
| d) Equity Sw aps | | | | |
| e) Forw ards | | | 113 | |
| f) Futures | | | | |
| g) Other | | | | |
| **Total** | **29,906** | | **9,976** | |

**A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements**

| Contracts that do not form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | 4,594 | | | 352 | 345 |
| - positive fair value | | | 4 | | | 4 | 29 |
| - negative fair value | | | | | | | |
| - future exposure | | | 55 | | | | 2 |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | 204,799 | 244,741 | | 32,333 | 29,565 |
| - positive fair value | | | 413 | 1,152 | | 326 | 170 |
| - negative fair value | | | 1,198 | 451 | | 358 | 9 |
| - future exposure | | | 2,111 | 2,447 | | 320 | 296 |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |

**A.6 OTC financial derivatives - trading portfolio for supervisory purposes: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

| Contracts that form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | 41,311 | | | | |
| - positive fair value | | | 9,661 | | | | |
| - negative fair value | | | 3,114 | | | | |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |

**A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements**

| Contracts that do not form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | 981 | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | 79 | | | | |
| - future exposure | | | 3 | | | | |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | 919 | | | 919 | |
| - positive fair value | | | | | | 6 | |
| - negative fair value | | | | | | | |
| - future exposure | | | 9 | | | 9 | |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |

**A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

| Contracts that form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | 398,225 | | | | |
| - positive fair value | | | 5,597 | | | | |
| - negative fair value | | | 24,680 | | | | |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |

**A.9 Residual life of OTC financial derivatives: notional values**

| Underlying/Residual life | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **A. Trading portfolio for supervisory purposes** | **524,091** | **21,943** | **12,005** | **558,039** |
| A.1 Financial derivatives linked to debt securities and interest rates | 15,793 | 18,803 | 12,005 | 46,601 |
| A.2 Financial derivatives linked to equities and stock indices | | | | |
| A.3 Financial derivatives linked to exchange rates and gold | 508,298 | 3,140 | | 511,438 |
| A.4 Financial derivatives linked to other instruments | | | | |
| **B. Banking book** | **185,898** | **64,650** | **150,496** | **401,044** |
| B.1 Financial derivatives linked to debt securities and interest rates | 184,061 | 64,650 | 150,496 | 399,207 |
| B.2 Financial derivatives linked to equities and stock indices | | | | |
| B.3 Financial derivatives linked to exchange rates and gold | 1,837 | | | 1,837 |
| B.4 Financial derivatives linked to other instruments | | | | |
| **Total 31.12.2015** | **709,989** | **86,593** | **162,501** | **959,083** |
| **Total 31.12.2014** | **361,730** | **144,858** | **56,209** | **562,797** |

## B. Credit derivatives

**B.1 Credit derivatives: notional values at the end of period**

| Type of transaction | Trading portfolio for supervisory purposes | | Banking book | |
|---|---|---|---|---|
| | on a single entity | on baskets of entities | on a single entity | on baskets of entities |
| **1. Purchases of protection** | | | | |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | - | - |
| **Total 31.12.2015** | **-** | **-** | **-** | **-** |
| **Total 31.12.2014** | **-** | **-** | **-** | **-** |
| **2. Sales of protection** | | | | |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | - | - |
| **Total 31.12.2015** | **-** | **-** | **-** | **-** |
| **Total 31.12.2014** | **25,000** | **-** | **-** | **-** |

**B.2 OTC credit derivatives: positive gross fair value - breakdown by product**

| Portfolio/Type of derivatives | Positive fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| A. Trading portfolio for supervisory purposes | | 61 |
| a) Credit default products | | 61 |
| b) Credit spread products | | |
| c) Total rate of return swaps | | |
| d) Other | | |
| B. Banking book | | |
| a) Credit default products | | |
| b) Credit spread products | | |
| c) Total rate of return swaps | | |
| d) Other | | |
| **Total** | | **61** |

**B.3 OTC credit derivatives: negative gross fair value - breakdown by product**

There are none at the reporting date.

**B.5 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

There are none at the reporting date.

**B.6 Residual life of credit derivatives: notional values**

| Underlying/Residual life | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **A. Trading portfolio for supervisory purposes** | | | | |
| A.1 Credit derivatives with qualified reference obligation | | | | |
| A.2 Credit derivatives with unqualified reference obligation | | | | |
| **B. Banking book** | | | | |
| B.1 Credit derivatives with qualified reference obligation | | | | |
| B.2 Credit derivatives with unqualified reference obligation | | | | |
| **Total 31.12.2015** | | | | |
| **Total 31.12.2014** | **25,000** | | | **25,000** |

## C. Financial and credit derivatives

**C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty**

| | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1) Bilateral financial derivative agreements** | | | **41,199** | | | **4** | **31** |
| - positive fair value | | | 12,933 | | | 4 | 29 |
| - negative fair value | | | 25,553 | | | | |
| - future exposure | | | 2,713 | | | | 2 |
| - net counterparty risk | | | | | | | |
| **2) Bilateral credit derivative agreements** | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| - net counterparty risk | | | | | | | |
| **3) Cross product agreements** | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| - net counterparty risk | | | | | | | |

## 1.3. BANKING GROUP - 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 (A.L.M.) 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 Gap Liquidity Analysis technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

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

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

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

1. Idiosyncratic, defined as a loss of confidence by the Group's market;

2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;

3. Combined, being a combination of scenarios 1 and 2.

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

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

**Self-securitisation transactions**

Note that on 9 December 2011, Banca Popolare di Spoleto completed a self-securitisation, which led to the sale of a package of Euro 425 million of residential mortgages to the SPV "Spoleto Mortgages 2011 - Società per la Cartolarizzazione Srl".

The SPV issued Euro 320 million of senior notes and Euro 105 million of junior notes on 6 March 2012; the securities were purchased entirely by Banca Popolare di Spoleto, which therefore holds 100% of the securities issued by the SPV. At 31 December 2015, the nominal residual values of these notes amounted to Euro 268,747 thousand.

## Quantitative information

**1. Distribution of financial assets and liabilities by residual contractual duration**

Euro

| Captions/Residual duration | On demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **2,021,597** | **19,543** | **70,094** | **287,837** | **900,292** | **438,258** | **869,357** | **4,143,713** | **2,823,523** | **97,804** |
| A.1 Government securities | 2 | - | - | - | 2,140 | 27,106 | 198,625 | 992,001 | 462,147 | - |
| A.2 Other debt securities | 43 | - | 23 | 1,512 | 205 | 82 | 7,530 | 64,291 | 17,718 | - |
| A.3 Mutual funds | 77,937 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 1,943,615 | 19,543 | 70,071 | 286,325 | 897,947 | 411,070 | 663,202 | 3,087,421 | 2,343,658 | 97,804 |
| - Banks | 75,028 | - | - | - | 46,017 | - | - | - | - | 97,804 |
| - Customers | 1,868,587 | 19,543 | 70,071 | 286,325 | 851,930 | 411,070 | 663,202 | 3,087,421 | 2,343,658 | - |
| **Cash liabilities** | **6,777,571** | **204,885** | **83,699** | **103,882** | **655,156** | **414,646** | **499,869** | **1,888,299** | **212,390** | **-** |
| B.1 Deposits and current accounts | 6,732,818 | 40,636 | 42,919 | 69,973 | 461,579 | 266,045 | 269,676 | 83,229 | - | - |
| - Banks | 32,867 | - | - | - | - | - | - | - | - | - |
| - Customers | 6,699,951 | 40,636 | 42,919 | 69,973 | 461,579 | 266,045 | 269,676 | 83,229 | - | - |
| B.2 Debt securities | 12,808 | 12,128 | 40,77 | 33,909 | 193,577 | 130,209 | 211,805 | 1,126,448 | 191,335 | - |
| B.3 Other liabilities | 31,945 | 152,121 | 10 | - | - | 18,392 | 18,388 | 678,622 | 21,055 | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 3,311 | 981 | 224,668 | 12,896 | 7,443 | 3,480 | 1,669 | - | - |
| - Short positions | - | 3,956 | 969 | 224,650 | 12,855 | 7,049 | 3,477 | 1,601 | - | - |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | 9,698 | - | - | 272 | 900 | 159 | 811 | 1 | - | - |
| - Short positions | 3,114 | - | - | 1,084 | 913 | 363 | 1,365 | - | - | - |
| C.3 Deposits and loans to be received | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to grant finance | | | | | | | | | | |
| - Long positions | 1,691 | - | - | 177 | 3,063 | 890 | 714 | 22,069 | 21,944 | 38 |
| - Short positions | 74,772 | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | 21 | 46 | 148 | 1,628 | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

**1. Distribution of financial assets and liabilities by residual contractual duration**

OTHER CURRENCIES

| Captions/Residual duration | On demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **42,710** | **1** | **8,218** | **29,466** | **26,334** | **6,413** | **34** | **210** | **539** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | 14 | - |
| A.3 Mutual funds | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 42,710 | 1 | 8,218 | 29,466 | 26,334 | 6,413 | 34 | 210 | 525 | - |
| - Banks | 41,546 | 1 | - | 21,512 | - | 1,909 | - | - | - | - |
| - Customers | 1,164 | - | 8,218 | 7,954 | 26,334 | 4,504 | 34 | 210 | 525 | - |
| **Cash liabilities** | **100,973** | **4,133** | **2,235** | **1,629** | **-** | **1,907** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 100,712 | 4,133 | 2,235 | 1,629 | - | 1,907 | - | - | - | - |
| - Banks | 4 | 4,133 | 2,235 | 1,629 | - | - | - | - | - | - |
| - Customers | 100,708 | - | - | - | - | 1,907 | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 261 | - | - | - | - | - | - | - | - | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 3,54 | 980 | 226,166 | 12,935 | 7,146 | 3,532 | 1,570 | - | - |
| - Short positions | - | 3,365 | 990 | 226,166 | 12,935 | 7,146 | 3,532 | 1,570 | - | - |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | | | | | | | | | | |
| - Long positions | - | 4,126 | - | - | - | - | - | - | - | - |
| - Short positions | - | 4,126 | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to grant finance | | | | | | | | | | |
| - Long positions | - | 295 | - | - | - | - | - | - | - | - |
| - Short positions | - | 295 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

## 1.4 BANKING GROUP – 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 di 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 (so – colled 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 information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

During 2015, implementing activities in the Loss Data Collection process were completed for the subsidiary BPS by aligning to the Parent Company's standards.

In compliance with the Bank of Italy's provisions (former Circular 285/2013, Part I, Title IV, section 4 and 5), the Group set up the Security and ICT Governance Function within the Parent Company and adopted the following procedures:

1. Security Policy;
2. Accident Management;
3. IT Risk Methodology.

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

For risk management of criminal offences pursuant to Legislative Decree no. 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model of prevention. The supervision of the effective implementation of the aforementioned models has been assigned to specific bodies.

The Banco di Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions.

A summary table of legal disputes with the related provisions is shown below:

**Claw-back suits**

| | |
|---|---|
| Number | 27 |
| Claim | € 27.682 million |
| Provision | € 5.050 million |

**Other lawsuits**

| | |
|---|---|
| Number | 566 |
| Claim | € 139.409 million |
| Provision | € 14.883 million |

It should be noted that there are about forty counterclaims for a total claim of about € 5.3 million (of which approximately € 3.3 million relating to one position - the only one with a value of more than € 1 million - for which it was contested on the grounds of a loan agreement), filed against B.P.S. during write-backs of loans established by it from assets for a total of about € 5.3 million. These disputes are however taken into account in the evaluation phase of the related credit exposures.

**Significant lawsuits (claims higher than € 1 million)**

- Plaintiff FAIRFIELD: CLAIM € 2.692 million. Judicial procedure initiated by Fairfield Sentry Limited Fund brought before the United States Bankruptcy Court for the Southern District of New York against Banco di Desio e della Brianza S.p.A. in its capacity as custodian bank of a mutual fund managed by an Italian asset management company. This legal action is aimed at the recovery of payments made between 2005 and 2008 of a total amount of $3,853,221.77 by Fairfield Fund (put into liquidation as a result of the well known events involving Bernard L. Madoff) to Banco di Desio e della Brianza S.p.A. (in its capacity as custodian bank) on behalf of the aforementioned mutual fund. Banco di Desio e della Brianza S.p.A. acted as a mere intermediary in the relationship between the Funds;
- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1.833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property;
- CLAIM € 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. Recently, the Milan Court of Appeal issued a judgment which defined the ruling favourable to the Bank, confirming the first instance judgment and condemning the defendant to pay the legal costs of litigation. The Bank waits for the definition of the judgment for expiration fn appeal;
- CLAIM € 45.608 million. By writ of summons, the counterparty in Extraordinary Administration brought legal proceedings against Banco di Desio e della Brianza S.p.A. and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of € 45.608 million as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. Banco di Desio e della Brianza S.p.A. appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, the counterparty appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. With judgement issued in 2015 the Milan Court of Appeal rejected the appeal filed by the counterparty in its entirety. By application filed on 06.06.2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;
- CLAIM: € 2 million - By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A. paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With sentence issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;
- CLAIM € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. and leased to the counterparty plus amounts paid into a current account. The receiver contested on the making of payments (art. 65 l.f.). The first-instance judgment, issued by the Court of Como, in favour of the Bank has been appealed by the receivership. The Court of Appeal has overturned the first instance decision. The Bank appealed to the Supreme Court;
- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than 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 whose documents appear to be in favour of Banco Desio della Brianza S.p.A.;

- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than 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 and whose documents appear to be in favour of Banco Desio della Brianza S.p.A.;
- CLAIM € 10 million. The company opposed the injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco di Desio e della Brianza S.p.A. of an amount of Euro 10 million for damages sustained by way of capital reduction and for damage to the company's reputation. The claim for damages was justified by the counterparty as a consequence of an illegitimate withdrawal of banking facilities and for having been consequently reported to Central Risks. The preliminary investigation conducted has made it possible to confirm the correctness of credit operated with the injunctive decree. The cause is in the process of decision;
- CLAIM € 1.818 million. The plaintiff was declared bankrupt in 2015 after being admitted to the Extraordinary Administration Procedure in 2011. A summons has been notified to Banco di Desio e della Brianza S.p.A. concerning the bankruptcy clawback of € 1.818 million. The bodies of bankruptcy proceedings deemed to promote those proceedings contesting certain movements characterised by anomalous activity on behalf of the plaintiff. The Bank questioned that these are revocable remittances, as actually mere accounting operations carried out in the execution of the restructuring agreement as per art. 67 paragraph 2, letter d) of the Bankruptcy Law and, as such, may not be revoked. The cause is under investigation;
- CLAIM € 3 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations would have allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank opposed by pleading the invalidity of the summons from various points of view, the statute of limitations for claims and the Official Receiver's lack of legal standing. The judge approved the conclusions without accepting the preliminary motions. By judgment issued in February 2016, the Court of Terni has rejected the application;
- CLAIM € 1.933 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations would have allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum € 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The Official Receiver's legal standing was also contested. We are waiting for the date of the next hearing to be set;
- CLAIM € 4.7 million: the Receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia for it to be ordered to refund € 4.7 million. The Receiver assumes that the Bank permitted an abnormal transaction to be carried out by a person not entitled to do so on behalf of the company. The Bank appeared in court and disputed the legal standing of the Receiver, the total groundlessness of the claims as well as the existence of a causal link between the conduct of B.P.S. and the bankruptcy of the company;
- CLAIM € 1.461 million: in 2013 a former employee appealed against the recess of the employment relationship by Banca Popolare di Spoleto S.p.A., asking it 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 on 5 May 2016 for the debate;
- CLAIM € 1.526 million: by writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza S.p.A. before the Court of Prato to obtain the refund of the amount of the capital invested in a series of securities and, alternatively, the loss incurred during the course of the investment. At the hearing held on 24 September 2015, regarding the lack of legal standing raised by the Bank (following the conferral to Banca Popolare di Spoleto S.p.A., under the extraordinary transaction concerning the business unit consisting of 32 branches, of the branch where the relationship was in place) BPS was requested and authorized to appear; the Bank has pleaded prescription of the request and, in addition to dispute the merits of the claim, proposed counterclaim for repayment of the sum of about € 1.2 million received by the plaintiff as a result of the sale of these financial instruments. The first hearing is scheduled for 16 June 2016;
- CLAIM € 1.573 million: the receivership summoned Banca Popolare di Spoleto S.p.A. to obtain an ordinary revocation of two sale agreements of loans to the City of Umbertide. The judge rejected the preliminary motions of the Receivership and scheduled the hearing of the conclusions for 27 April 2016;
- CLAIM € 2.305 million: the receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) € 1.904 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) € 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief for which the other defendants (former directors) are required to pay the above amount 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. The first hearing of the case in question was deferred for the call of a third party made by the Statutory Auditors;
- CLAIM € 10.421 million: the counterparty proposed proceedings under art. 67 of the bankruptcy law in order to obtain repayment of the sum of € 10.412 million represented by the remittances collected in the period between 14 October 2007 and 14 October 2008 (i.e. in the year prior to admission to the extraordinary administration procedure) on accounts held by the counterparty at Banca Popolare di Spoleto S.p.A. The suit is under investigation for the performance of the expert witness's report. The next hearing is scheduled for 12 July 2016. From the first results of the investigation, it emerges a framework evaluated positively by the Bank;
- CLAIM € 7.310 million: with a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto S.p.A. together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally,

to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court on 2/12/2009, and therefore about three years before the declaration of bankruptcy (judgment 21/3/2013), Banca Popolare di Spoleto, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or public administration, for an amount of € 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The judge rejected all the preliminary motions of the Receivership. The suit is in the process of decision.

For completeness, we would point out that, under article 72, paragraph 5 of the CBA, the Extraordinary Commissioners of B.P.S., prior approval of the Bank of Italy, exercised the liability action against the members of the dissolved administrative and control bodies and the general manager. The suit was declared interrupted at the hearing on 5 November 2015 for the death of one of the defendants. The Board of Directors of B.P.S. has nonetheless approved the reinstatement, which was promptly done. It should be noted that this action contains a condemnation request of the defendants to pay compensation for damages totaling approximately € 30,000 million, broken down by reason of their responsibilities.

**Tax litigation**

We have the following to say about the Group’s litigation with the Tax Authorities.

On 22 December, the Lombardy Regional Tax Office - Large tax payers Office served tax assessments on the Bank for the year 2010, for Ires, Irap and Vat.

The notices of assessment relating to Ires and Irap follow the contradictory established with the the Lombardy Regional Tax Office - Large tax payers Office (on which information has been given in the notes to the 2014 financial statements), to transmute the disputes concerning foreign-dressing of the subsidiaries CPC and Rovere - according to reports on findings notified by the Tax Police, Unit of Milan, Group I for the Protection of revenues - 1st Section Complex checks - on findings on the subject of “transfer pricing” to the Bank.

In particular, the findings concern the failure to recharge by the Bank the so-called “coordination costs” to Rovere and CPC and failure to relegation from Rovere to the Bank of management fees (“rebate management fees”).

As a result of these investigations, the Tax Office has fined the Bank as follows:

| year | tax | additional tax | penalties (reduced to one sixth) | interest at 31.12.2015 | total |
|---|---|---|---|---|---|
| 2010 | IRES | 799 | 133 | 127 | 1,059 |
| | IRAP | 140 | | 22 | 162 |
| Total | | 939 | 133 | 149 | 1,221 |

The Bank decided to accept these assessments as well and paid the amounts according to regulations.

The amount of Euro 1,221 thousand was recognised as costs for higher taxes, penalties and interest calculated at 31/12/2014 (for a total of Euro 1,188 thousand) debited to the provision for risks and charges that had been set up in prior years.

The assessment relating to Vat concerns, as for the year 2006, 2007, 2008 and 2009 (disclosed in the notes on prior years’ financial statements) the liability to tax of the fees charged by the Bank to the asset management company for custodian bank services. It reflects the terms and conditions of the agreements reached on the subject between ABI (the Italian Banking Association) and the Tax Authorities, contained in the Ministerial Resolution no. 97/E of 17 December 2013, which generally provide for the establishment of an increased taxable income that corresponds to 28.3% of the fees charged to the management companies, without the application of the sanctions on the basis of objective interpretative uncertainty of the original regulation.

As a result of this investigation, the Tax Office has fined the Bank as follows:

| year | tax | additional tax | penalties | interest at 31.12.2015 | total |
|---|---|---|---|---|---|
| 2010 | VAT | 140 | | 24 | 164 |
| Total | | 140 | | 24 | 164 |

The Bank decided to accept this assessment as well and paid the amounts according to regulations. The VAT and interest amounts paid were recharged to the asset management companies in accordance with the provisions of art. 60 para. 7 of Presidential Decree no. 633/1972.

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

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It should be noted, as a most important event, that in December 2015 the subsidiary Fides allocated an amount of € 2.498 million as a further restatement of the commission in its favour (applying the pro rata method), to be paid to customers that repaid the loan agreement in advance.

## Quantitative information

The number of detrimental events recorded by the Group[2] in the course of 2015 comes to 1,463. 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 | 0.21% | 33 | 0.31% | 33 | 0.32% | 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 | 64 | 4.37% | 973 | 9.29% | 948 | 9.33% | 25 | 2.60% |
| EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination | 6 | 0.41% | 54 | 0.51% | 54 | 0.53% | 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) | 436 | 29.80% | 7,204 | 68.80% | 7,038 | 69.26% | 165 | 2.30% |
| 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 | 14 | 0.96% | 16.743 | 0.16% | 15.726 | 0.15% | 1 | 6.07% |
| BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections | 5 | 0.34% | 234 | 2.24% | 117 | 1.15% | 117 | 50.07% |
| EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT | 935 | 63.91% | 1,956 | 18.68% | 1,956 | 19.25% | 0 | 0.00% |
| **TOTAL Gruppo Banco Desio e della Brianza** | **1,463** | **100.00%** | **10,471** | **100.00%** | **10,162** | **100.00%** | **309** | **2.95%** |

The gross operating loss comes to € 10.471 million, for which prudent provisions were made during the year of € 5.79 million. Of the total gross loss, an amount was recovered of € 309 thousand, resulting in a net loss of € 10.162 million.

[2] The contribution to the process of collecting loan losses of the subsidiary Banca Popolare di Spoleto is for the period 1 August 2014 - 31 December 2014, i.e. since it became part of the Banco Desio Group.

# PART F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

## SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

### A. Qualitative information

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

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

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

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

## B. Quantitative information

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

| Captions | Banking Group | Insurance companies | Other businesses | Consolidation adjustments and eliminations | 31.12.2015 |
|---|---|---|---|---|---|
| Share capital | 125,443 | | | | 125,443 |
| Share premium reserve | 31,569 | | | | 31,569 |
| Reserves | 706,096 | | | | 706,096 |
| - revenue reserves | 683,485 | | | | 683,485 |
| a) legal reserve | 86,395 | | | | 86,395 |
| b) statutory reserve | 494,235 | | | | 494,235 |
| c) reserve for treasury shares | | | | | |
| d) other | 102,855 | | | | 102,855 |
| - other | 22,611 | | | | 22,611 |
| Equity instruments | | | | | |
| (Treasury shares) | -51 | | | | -51 |
| Valuation reserves: | 20,628 | | | 772 | 21,400 |
| - Financial assets available for sale | -21 | | | | -21 |
| - Property, plant and equipment | | | | | |
| - Intangible assets | | | | | |
| - Foreign investment hedges | | | | | |
| - Cash-flow hedges | 63 | | | | 63 |
| - Exchange differences | | | | | |
| - Non-current assets and disposal groups held for sale | | | | | |
| - Actuarial gains (losses) on defined-benefit pension plans | -2,310 | | | | -2,310 |
| - Portion of valuation reserves relating to investments carried at equity | | | | 772 | 772 |
| - Special revaluation laws | 22,896 | | | | 22,896 |
| Net profit (loss) of the year (+/-) pertaining to the Group and minority interests | 37,598 | | | | 37,598 |
| **Shareholders' equity** | **921,283** | | | **772** | **922,055** |

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

| Assets/Amounts | Banking Group | | Insurance companies | | Other businesses | | Consolidation adjustments and eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | 3,632 | -1,930 | | | | | | | 3,632 | -1,930 |
| 2. Equity instruments | 397 | | | | | | | | 397 | |
| 3. Mutual funds | 671 | -2,709 | | | | | | | 671 | -2,709 |
| 4. Loans | | | | | | | | | | |
| **Total 31.12.2015** | **4,700** | **-4,639** | | | | | | | **4,700** | **-4,639** |
| **Total 31.12.2014** | **4,351** | **-2,047** | | | | | | | **4,351** | **-2,047** |

**B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year**

| | Debt securities | Equity instruments | Mutual funds | Loans |
|---|---|---|---|---|
| **1. Opening balance** | **2,360** | **197** | **-253** | |
| **2. Positive changes** | **5,641** | **200** | **297** | |
| 2.1 Fair value increases | 5,110 | | 209 | |
| 2.2 Reversal to income statement of negative reserves | 341 | 200 | 88 | |
| - from impairment | | 200 | | |
| - from disposals | 341 | | 88 | |
| 2.3 Other changes | 190 | | | |
| **3. Negative changes** | **-6,299** | | **-2,082** | |
| 3.1 Fair value decreases | -2,684 | | -1,607 | |
| 3.2 Impairment adjustments | | | | |
| 3.3 Reversal to income statement from positive reserve: from disposals | -3,525 | | -441 | |
| 3.4 Other changes | -90 | | -34 | |
| **4. Closing balance** | **1,702** | **397** | **-2,038** | |

**B.4 Valuation reserves related to defined-benefit pension plans: changes of the year**

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 1,235 thousand (net of the related tax effect of 469 thousand euro) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

# SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

## 2.1 Scope of application and regulations

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

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

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

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

## 2.2 Own Funds

### A. Qualitative information

The harmonised framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26.06.2013 is applicable from 1 January 2014; it transposes the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 Framework) into the European Union. This regulatory framework defines, among others, the elements included in Own Funds, which forms the basis of the capital requirements that credit institutions must comply with.

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes.

The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

As at 31 December 2015, Banco Desio Group's Own Funds consist of the following:

*(Amounts in thousands of Euro)*

| Description | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Common Equity Tier 1 (CET 1) | 860,154 | 832,234 |
| Additional Tier 1 capital (AT1) | 10,568 | 12,801 |
| Tier 2 capital (T2) | 235,348 | 145,728 |
| **Total Own Funds** | **1,106,070** | **990,763** |

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

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

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

#### 2. Additional Tier 1 - AT1

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

### 3. Tier 2 - T2

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

## B. Quantitative information

### Own Funds

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Common Equity Tier 1 (CET 1) prior to application of prudential filters | 884,433 | 862,868 |
| of which: CET 1 capital instruments subject to transitional provisions | - | - |
| B. CET 1 prudential filters (+/-) | -291 | -2,108 |
| C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B) | 884,142 | 860,761 |
| D. Items to be deducted from CET 1 | 24,738 | 29,459 |
| E. Transitional provisions – Impact on CET 1 (+/-) | 750 | 933 |
| **F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)** | **860,154** | **832,234** |
| G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions | 13,862 | 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 (+/-) | -3,294 | -1,373 |
| **L. Total Additional Tier 1 (AT1) (G - H +/- I)** | **10,568** | **12,801** |
| **M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions** | **234,424** | **142,099** |
| of which: T2 capital instruments subject to transitional provisions | - | - |
| N. Items to be deducted from T2 | - | - |
| O. Transitional provisions – Impact on T2 (+/-) | 924 | 3,629 |
| P. Total Tier 2 (T2) (M - N +/- O) | 235,348 | 145,728 |
| **Q. Total Own Funds (F + L + P)** | **1,106,070** | **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 77.77% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.96% and 21.28%, 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 10.845%
– T1 /risk-weighted assets 10.978%
– Total Own Funds/risk-weighted assets 13.946%

These figures are again well above the Group's minimum requirements at the end of the Supervisory Review and Evaluation Process (SREP), which defined the following minimum levels for the consolidated capital ratios:

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

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

## B. Quantitative information

| Categories/Amounts | Unweighted amounts | | Weighted amounts/Requirements | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| **A. RISK ASSETS** | | | | |
| **A.1 Credit and counterparty risk** | **12,502,276** | **12,963,287** | **7,089,800** | **7,165,594** |
| 1. *Standardised methodology* | *12,501,738* | *12,962,644* | *7,089,262* | *7,164,951* |
| *2. Methodology based on internal ratings* | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| *3. Securitisations* | *537* | *643* | *537* | *643* |
| **B. CAPITAL ADEQUACY REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | **567,184** | **573,248** |
| **B.2 Risk of credit valuation adjustment** | | | **1,828** | **947** |
| **B.3 Regulatory risk** | | | | |
| **B.4 Market risks** | | | **441** | **3,500** |
| 1. *Standardised methodology* | | | *441* | *3,500* |
| *2. Internal models* | | | | |
| *3. Concentration risk* | | | | |
| **B.5 Operational risk** | | | **65,042** | **68,680** |
| *1. Basic approach* | | | *65,042* | *68,680* |
| *2. Standardised approach* | | | | |
| *3. Advanced approach* | | | | |
| **B.6 Other items** | | | **0** | **0** |
| **B.7 Total precautionary requirements** | | | **634,495** | **646,375** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 7,931,181 | 8,079,685 |
| **C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)** | | | **10.845%** | **10.300%** |
| **C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)** | | | **10.978%** | **10.459%** |
| **C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)** | | | **13.946%** | **12.262%** |

For the purpose of calculating point C “Risk assets and capital ratios” the EU regulation provides for a facilitated weighting (with a support factor of 0.7619) for Small and Medium-sized Enterprises (SMEs).

# PART G – BUSINESS COMBINATIONS

## SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

During the year there were no business combinations, as regulated by IFRS 3 - *business combinations,* With impact on the consolidated financial statements.

Note, however, that the following transactions were carried out with effect from 1 April 2015:

– contribution of a business unit consisting of 32 branches by Banco di Desio e della Brianza to its subsidiary Banca Popolare di Spoleto;
– sale of the Milan branch by the subsidiary Banca Popolare di Spoleto to the Parent Company Banco di Desio e della Brianza.

Business combination between entities under common control: these business combinations are excluded from the scope of IFRS 3. Given that the accounting treatment is not specifically regulated by IAS/IFRS, reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements".

In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

## SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations were carried out after year-end.

## SECTION 3 - RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the year.

# PART H - TRANSACTIONS WITH RELATED PARTIES

## 1 - INFORMATION ON THE REMUNERATION OF MANAGERS WITH STRATEGIC RESPONSIBILITIES

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the “Report on the Group’s Remuneration Policies” prepared in accordance with art. 123-ter CFA, which also includes information on the Group’s stock grant and stock option plans.

## 2 - RELATED PARTY DISCLOSURES

The Internal Procedure for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the “Bank/Governance/Corporate documents” section.

Given that, pursuant to art. 5 of Consob Regulation no. 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[3];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group during the period, there have been no transactions worth mentioning, other than those with Banca Popolare di Spoleto S.p.A. explained in the section on “Significant events” of the Report on Operations.

Transactions with related parties are generally adjusted at market conditions or, where an appropriate reference to the market is not feasible (as in the case of Agreements for outsourcing services provided by the Parent Company to the subsidiaries), at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case that the company is interested in carrying out the transactions.

In this context, there are no transactions outstanding at 31 December 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 year and, lastly, any relationships for the provision of services or of any other nature.

[3] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

***I - Parent company***

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. at Banco Desio amounted to Euro 180.1 million, of which Euro 179 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

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

***II – Associates***

At year end, a 35.93% investment was held in **Istifid S.p.A.**, thanks to which Banco Desio is still the shareholder with a relative majority.

Banco Desio and Banca Popolare di Spoleto S.p.A.’s contractual relations with Istifid S.p.A. 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 S.p.A.

With regard to the banking services provided by Banco Desio and Banca Popolare di Spoleto to Istifid S.p.A, at the end of the period payables (to customers) amounted to Euro 91.7 million, of which Euro 62.5 million relating to securities portfolios; a credit line of Euro 500,000 has been given to the company.

Please note that the payable and receivable balances also refer to relationships maintained by Istifid S.p.A as part of fiduciary mandates granted by third parties.

There is also an investment in the associate **Chiara Assicurazioni S.p.A**, in which a 32.66% interest is held.

At the end of the year, payables (to customers) amounted to Euro 58 million, of which Euro 57.5 million relating to securities portfolios; there are no outstanding payables held by the company, which has been given a credit line of Euro 10,000.

The contractual relationships with Chiara Assicurazioni S.p.A. maintained by the Bank and its subsidiary Banca Popolare di Spoleto S.p.A. essentially consist of contracts for the distribution of insurance products in the non-life sector.

The amounts of assets/liabilities and income/costs arising from transactions with the aforementioned company are disclosed in Para. 9.4 of the Report on Operations under the caption “Companies subject to significant influence”.

***III - Transactions with Officers and parties related to them***

As for the granting of credit lines approved in 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 the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness.

The total amount granted by Group banks on 33 outstanding positions at 31 December 2015 amounted to approximately Euro 8.2 million. The related drawdowns amounted to a total of about Euro 6 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 31 December 2015 amounted to Euro 142 million in amounts due to customers (including approximately Euro 110 million in securities portfolios).

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

| **Balances at 31.12.2015 (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 | 8.2 |
| Amount drawn down | 6.0 |
| **Funding transactions:** | |
| C/c and d/r amount (a) | 32.0 |
| Amount of securities portfolios (b) | 110.0 |
| **Total (a+b)** | **142.2** |

With reference to the Supplementary Pension Fund for the Employees of Banco Desio, at the end of the year, payable balances amounted to Euro 1.9 million. There are no securities in the portfolio.

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

# PART I - EQUITY-BASED PAYMENTS

**Qualitative information**

## Equity-based payments - description

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving free allocation of ordinary shares of the Parent Company in favour of Banco Desio Group management, as approved by the Ordinary Shareholders' Meeting of 29 November 2011, note that a check has been carried out on the conditions for effective allocation of the shares relating to the 3rd and last grant cycle linked to the three-year performance period 2013-2015. With consolidated results for 2015, three-year gate targets of liquidity and assets have been positively achieved, and the ratio between the cumulative Consolidated Adjusted Result and the related Budget stood at the level required, pursuant to the Regulations of the Plan, the conditions for the bonus increase in capital are met as well as the delivery to 27 beneficiaries of a total of no. 89,823 Banco di Desio's ordinary shares and the recognition of an amount equivalent to no. 24,648 ordinary shares in favour of the Chief Executive Officer. Given that the direct and indirect costs and management complexity of this operation are related to a small increase in capital and considering also that the Regulations of the Plan do not provide for beneficiaries being subject to lock-up restrictions (so they could sell the benefit without any further delay), we thought it preferable to extend the payment of an equivalent amount to all beneficiaries. As we said, this approach is envisaged for executive directors in the Regulations of the Plan. With the execution of this substitute payment, the Stock Grant 2011-2013 Plan has to be considered in all respects concluded.

# PART L – 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 S.A.;
- assets held for sale/liquidation: this includes the results of Banca Credito Privato Commerciale S.A. in liquidation, as well as the results of Brianfid - Lux S.A. up to the date of its deletion from the commercial register, which took place on 11 August 2014.

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 | 31.12.2015 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Net profit from financial and insurance activities (1) | 504,822 | 500,646 | 4,036 | 140 |
| Fixed costs (2) | -322,537 | -318,276 | -909 | -3,352 |
| Provisions and adjustments (3) | -149,756 | -148,949 | | -807 |
| Profit (loss) from equity investments carried at equity | 10,764 | 10,764 | | |
| Gains (losses) on disposal of investments | 2 | 2 | | |
| **Profit (loss) from current operations before tax** | **43,295** | **44,187** | **3,127** | **-4,019** |

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

| Balance sheet | 31.12.2015 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Financial assets | 1,901,770 | 1,901,770 | | |
| Due from banks | 292,992 | 248,567 | | 44,425 |
| Loans to customers | 9,386,311 | 9,386,300 | | 11 |
| Due to banks | 753,115 | 753,115 | | |
| Due to customers | 8,244,110 | 8,244,002 | | 108 |
| Debt securities in issue | 1,918,104 | 1,918,104 | | |
| **Indirect deposits, under administration and management** | **12,310,102** | **12,284,303** | **25,799** | |

| Income statement | 31.12.2014 | Commercial bank | Asset MNG | Assets held for sale/in liquidation |
|---|---|---|---|---|
| Net profit from financial and insurance activities (1) | 465,819 | 462,262 | 3,329 | 228 |
| Fixed costs (2) | -269,866 | -265,052 | -690 | -4,124 |
| Provisions and adjustments (3) | -150,282 | -152,942 | | 2,660 |
| Profit (loss) from equity investments carried at equity | 10,706 | 10,706 | | |
| Gains (losses) on disposal of investments | 2,173 | 206 | | 1,967 |
| **Profit (loss) from current operations before tax** | **58,550** | **55,180** | **2,639** | **731** |

(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 | 1,905,058 | 1,905,058 | | |
| 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 pursuant to art. 154-bis of Legislative Decree 58/98

Gruppo Banco Desio

# CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Tommaso Cartone, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:
   – the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their
   – effective application during 2015.
2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2015 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.
3. We also certify that:

3.1. the consolidated financial statements:
   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
   b. agree with the books of account and accounting records;
   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

*Desio, 11 February 2016*

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

# Auditors' report

Gruppo Banco Desio

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

# INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

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

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco di Desio e della Brianza Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, n° 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banco di Desio e della Brianza Group as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which is the responsibility of the Directors of Banco di Desio e della Brianza S.p.A., with the consolidated financial statements of the Banco di Desio e della Brianza Group as at December 31, 2015. In our opinion the report on operations and the information included in the report on corporate governance referred to above is consistent with the consolidated financial statements of the Banco di Desio e della Brianza Group as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

*Signed by*
Maurizio Ferrero
Partner

Milan, Italy
March 15, 2016

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

# Attachment to the consolidated financial statements

## DISCLOSURE COUNTRY BY COUNTRY - BANK OF ITALY CIRCULAR 285, PART ONE - TITLE III - CHAPTER 2

| Information/Geographical Area | Italy | | Luxembourg | Switzerland |
|---|---|---|---|---|
| a) Name of company | Banco di Desio e della Brianza S.p.A | | Rovere Société de Gestion S.A. | Credito Privato Commerciale S.A. in liquidation |
| nature of the activity | Traditional banking activities, asset management, bancassurance (life and non-life) | | Asset management company | |
| a) Name of company | Banca Popolare di Spoleto | | | |
| nature of the activity | Traditional banking activities, asset management, bancassurance (life and non-life) | | | |
| a) Name of company | | Fides S.p.A. | | |
| nature of the activity | | Financial intermediary that grant loans to public and private sector employees | | |
| a) Name of company | | SPV Spoleto Mortgages - Separate assets | | |
| nature of the activity | | Financial intermediary offering securitised asset management services | | |
| b) Turnover (*amounts in thousands of €*) (1) | 425,668 | 25,274 | 4,036 | 140 |
| c) Number of employees on full-time equivalent basis (2) | 2,034 | 32 | 2 | 3 |
| d) Profit/(loss) before tax (*amounts in thousands of €*) | 22,193 | 21,994 | 3,127 | -4,019 |
| e) Tax on profit/(loss) (*amounts in thousands of €*) | -3,689 | -1,831 | -177 | |

Notes:
(1) turnover is grouped by country of settlement and by business segment. The figure represents caption 120 "Net interest and other banking income", as the figure to be taken for consolidation purposes, of the individual Group companies. The total of the line is equal to caption 120 of the income statement of the consolidated financial statements.
(2) the number of employees is determined by taking the total number of hours actually worked by all employees, excluding overtime, divided by the number of hours worked per week in accordance the full-time labour contract, multiplied by 52 weeks less 25 days - as established by convention - for the holiday period.

# Separate financial statements

# Directors and officers

## Board of Directors

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

## Board of Statutory Auditors

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

## General Management

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

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

| | |
|---|---|
| Financial Reporting Manager | Mauro Walter Colombo |
| Independent Auditors | Deloitte & Touche S.p.A. |

* Members of the Executive Committee

# Report on operations

# INTRODUCTION

Note that as a result of the resolutions passed by the Board of Directors for the disposal of investments in the subsidiary Rovere SdG S.A. and the associated Istifid S.p.A., we have reclassified the carrying value of equity investments at 31 December 2015 from caption "100 - Equity investments" of the assets side of the balance sheet to "140 - Non-current assets and disposal groups held for sale".

Please note that, in accordance with IFRS 5, with reference to 31 December 2014, the balance sheet captions 140 - "Non-current assets and disposal groups held for sale" and 90 - "Liabilities associated with groups of assets held for sale", as well as the income statement caption 280 - "Profit (loss) after tax on non-current assets held for sale", group together the values reclassified in the relevant captions in relation to 32 branches of the Tuscany and Lazio area included in the scope of transfer of the business unit by the Bank to Banca Popolare di Spoleto S.p.A., which took place on 1 April 2015.

In order to provide a consistent comparison of each period and therefore a better representation of the figures and indices of the specific comments on performance, the item "Profit (loss) after tax on non-current assets held for sale" in the reclassified income statement at 31 December 2015 includes the reclassified amounts of other captions associated with the contribution for the first quarter of 2015 arising from the 32 branches mentioned above.

The figures and ratios included in this Report on Operations, as well as the comments on the composition of the captions and the relating changes, where due, refer to the balance sheet included in the financial statements and to the reclassified income statement, which has been prepared from the financial statements.

# 1 - KEY FIGURES AND RATIOS

## BALANCE SHEET

*Amounts in thousands of Euro*

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Total assets | 8,694,725 | 9,491,033 | -796,308 | -8.4% |
| Financial assets | 1,534,706 | 1,357,669 | 177,037 | 13.0% |
| Due from banks | 447,669 | 315,884 | 131,785 | 41.7% |
| Loans to customers | 5,977,833 | 6,076,574 | -98,741 | -1.6% |
| *of which: Loans to ordinary customers* | *5,977,833* | *5,878,213* | *99,620* | *1.7%* |
| *of which: Loans to institutional customers* | | *198,361* | *-198,361* | *-100.0%* |
| Property, plant and equipment | 137,571 | 137,803 | -232 | -0.2% |
| Intangible assets | 3,572 | 3,500 | 72 | 2.1% |
| Non-current assets and disposal groups held for sale | 1,403 | 1,117,528 | -1,116,125 | -99.9% |
| | | | | |
| Due to banks | 810,833 | 790,090 | 20,743 | 2.6% |
| Due to customers | 5,155,059 | 4,709,455 | 445,604 | 9.5% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 1,648,515 | 1,978,647 | -330,132 | -16.7% |
| Liabilities associated with groups of assets held for sale | 0 | 993,775 | -993,775 | -100.0% |
| Shareholders' equity (including Net profit/loss for the period) | 852,046 | 817,770 | 34,276 | 4.2% |
| | | | | |
| Own Funds | 1,051,610 | 912,963 | 138,647 | 15.2% |
| | | | | |
| Total indirect deposits | 10,465,556 | 10,516,263 | -50,707 | -0.5% |
| *of which: Indirect deposits from ordinary customers* | *6,590,780* | *6,754,180* | *-163,400* | *-2.4%* |
| *of which: Indirect deposits from institutional customers* | *3,874,776* | *3,762,083* | *112,693* | *3.0%* |

## INCOME STATEMENT [1]

*Amounts in thousands of Euro*

| | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | amount | % |
| Operating income | 303,091 | 319,175 | -16,084 | -5.0% |
| *of which: Net interest income* | *155,452* | *159,858* | *-4,406* | *-2.8%* |
| Operating costs | 172,903 | 174,461 | -1,558 | -0.9% |
| Result of operations | 130,188 | 144,715 | -14,527 | -10.0% |
| Net profit (loss) from operations after tax | 31,924 | 9,496 | 22,428 | 236.2% |
| Non-recurring profit (loss) after tax | 3,091 | 9,332 | -6,241 | -66.9% |
| Profit (loss) after tax on non-current assets held for sale | 2,430 | 14,158 | -11,728 | -82.8% |
| Net profit for the year | 37,445 | 32,986 | 4,459 | 13.5% |

[1] from the reclassified income statement

## KEY FIGURES AND RATIOS

| | 31.12.2015 | 31.12.2014 | Change amount |
|---|---|---|---|
| Capital/Total assets | 9.8% | 8.6% | 1.2% |
| Capital/Loans to customers | 14.3% | 13.5% | 0.8% |
| Capital/Due to customers | 16.5% | 17.4% | -0.9% |
| Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and l | 51.7% | 41.3% | 10.4% |
| Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) | 15.8% | 13.7% | 2.1% |
| Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) | 15.8% | 13.8% | 2.0% |
| Total Own Funds/Risk-weighted assets (Total capital ratio) | 20.0% | 15.8% | 4.2% |
| Financial assets/Total assets | 17.7% | 14.3% | 3.4% |
| Due from banks/Total assets | 5.1% | 3.3% | 1.8% |
| Loans to customers/Total assets | 68.8% | 64.0% | 4.8% |
| Loans to customers/Direct customer deposits | 87.9% | 90.9% | -3.0% |
| Due to banks/Total assets | 9.3% | 8.3% | 1.0% |
| Due to customers/Total assets | 59.3% | 49.6% | 9.7% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss/Tot | 19.0% | 20.8% | -1.8% |
| Direct customer deposits/Total assets | 78.2% | 70.5% | 7.7% |

| | 31.12.2015 | 31.12.2014 | Change amount |
|---|---|---|---|
| Cost/Income ratio | 57.0% | 54.7% | 2.3% |
| Net interest income/Operating income | 51.3% | 50.1% | 1.2% |
| Result of operations/Operating income | 43.0% | 45.3% | -2.3% |
| Net profit (loss) from operations after tax/Shareholders' equity *(2)* | 3.9% | 1.2% | 2.7% |
| ROE *(2)* | 4.6% | 4.2% | 0.4% |
| Profit (loss) from operations before tax/Total assets (ROA) | 0.5% | 0.2% | 0.3% |

| | 31.12.2015 | 31.12.2014 | Change amount |
|---|---|---|---|
| Doubtful loans/Loans to customers | 4.4% | 3.7% | 0.7% |
| Non-performing loans/Loans to customers | 7.7% | 6.6% | 1.1% |
| % Coverage of doubtful loans | 55.9% | 49.2% | 6.7% |
| % coverage of doubtful loans, gross of cancellations | 65.7% | 63.2% | 2.5% |
| % total coverage of non-performing loans | 47.2% | 41.8% | 5.4% |
| % coverage of non-performing loans, gross of cancellations | 55.8% | 53.2% | 2.6% |
| % coverage of performing loans | 0.62% | 0.60% | 0.01% |

## STRUCTURE AND PRODUCTIVITY RATIOS

| | 31.12.2015 | 31.12.2014 | Change amount | % |
|---|---|---|---|---|
| Number of employees | 1,411 | 1,687 | -276 | -16.4% |
| Number of branches | 149 | 180 | -31 | -17.2% |
| | | | *Amounts in thousands of Euro* | |
| Loans and advances to customers per employee *(3)* | 4,047 | 3,913 | 134 | 3.4% |
| Direct deposits from customers per employee *(3)* | 4,606 | 4,307 | 299 | 6.9% |

| | 31.12.2015 | 31.12.2014 | Change amount | % |
|---|---|---|---|---|
| Operating income per employee *(3)* | 205 | 206 | -1 | -0.5% |
| Result of operations per employee *(3)* | 88 | 93 | -5 | -5.4% |

[2] equity excluding net profit (loss) for the period;
[3] based on the number of employees calculated as a straight average (for consistency purposes, the average used is net of the employees of Banco Lazio S.p.A. at 31.12.2014).

# 2 - UNDERLYING SCENARIO

## 2.1 - THE MACROECONOMIC SCENARIO

***International scenario***

The increase in reference rates in the United States in December 2015 marked the end of the era of zero interest rates, but it did not reduce the risks for the world economy. In fact, at the end of 2015, the world economic scenario was still influenced by two phenomena that have depressed the outlook for global economic growth: the slowdown in emerging countries, weighed down by the ongoing transformation of the Chinese economy and the lack of inflation in advanced economies, despite the huge monetary policy effort on the part of Central Banks. The weakness of the international economy was confirmed by the latest available data: in September, the month-on-month growth in world trade (+0.5%) was not enough to improve the annual comparison (-0.3%); and despite the month-on-month growth (+0.3%), industrial production in September posted an annual increase (+2.3%) a long way from the performance achieved in the same period of 2014 (+3.3%). Global inflation resumed the downward trend seen in the first half of the year, coming in at 2.3% in October (-10 bps month-on-month).

An improvement in the terms of trade was bolstering household consumption in the USA and the Eurozone; during the third quarter investments in both areas still went ahead with uncertainty, while exports were penalised by the weakness in world trade. Only imports maintained a certain vigour, fueled by the dynamism of household consumption.

The lows reached by commodity prices, on the other hand, are limiting the economies of emerging nations, in certain cases contributing to their stagnation (South Africa, Brazil, Russia). Moreover, China's difficulties have been confirmed, not so much in the GDP statistics as in the contractions that are still affecting trade. For India, on the other hand, the low price of imported raw materials is helping to keep inflation in line with the objective of the central bank, which has repeatedly reduced its reference rates with expansionary effects on the economy.

With regard to the marked deterioration in oil fundamentals, the main causes must be searched in the output recorded in both OPEC and non-OPEC countries (mainly the United States), which was far higher than expected, and the thought that Iran could soon increase crude exports. In November, the price of oil stood at $ 45.9 per barrel (-43% y/y).

Overall, world GDP, which was expected to fall by 40 bps at the end of 2015 compared with the figure in 2014 (3.3%), is linked to the performance of emerging countries, whose average GDP is estimated to drop (-90 bps) year-on-year. On the other side, the GDP of industrialised countries is expected to grow, with an increase of 30 bps compared with the figure recorded at the end of 2014 (+1.7%).

The reduction in raw material prices and the slowdown in international trade during 2015 triggered a sharp drop in the rate of inflation. Worldwide inflation went from 5.2% in 2011 to 2.3% in 2015. According to recent estimates by the International Monetary Fund, the advanced economies are very close to deflationary spirals: in the united States, inflation is expected to end 2015 at 0.1% (formerly 3.1% in 2011), while in the Euro Area forecasts are 0.2% (previously 2.7% in 2011). Without Quantitative Easing, the United States and Europe would have already been in deflation; at the same time, however, it is quite clear the extent to which this monetary stimulus - however impressive - has not been able to bridge the gap in low aggregate demand.

***United States***

In the third quarter of 2015 GDP recorded a lower quarterly variance than the previous quarter (2.1% versus 3.9%); the slowdown was largely determined by the negative contribution from inventories and exports, while consumption continued to support the economic cycle. In detail, consumption and investment have both increased by 0.8% (formerly +0.9% and +1.3%, respectively, in the previous quarter), exports by 0.2% (formerly +1.2%), while imports posted an increase of +0.5% (formerly +0.7%). The OECD's leading indicator signals that the prospects for the economy could remain uncertain for the next six months. By the end of 2015, the US GDP is expected to grow by +2.5%, an increase compared with year-end 2014 (+10 bps).

The labour market is continuing to gain ground. In fact, unemployment in the third quarter stood at 5.2% (6.1% in September 2014). In October the number of unemployed fell yet again (coming in at 5.0%), reaching the lowest level since 2008.

After the fall in the first half of the year (-0.9%), industrial production rebounded, in October turning in an increase compared to the same period of the previous year (+0.3%). Business confidence indicators have been showing different trends depending on the industry: The ISM (Institute of Supply Management) index of the manufacturing sector, after the sharp increase recorded in 2014, in October fell by almost 8 points, while the non-manufacturing ISM index rose by 2.5 points, albeit with various ups and downs.

The housing market continues to show signs of recovery, though less strong than in previous months. In parallel, housing prices have continued the rally that began in 2012: in the third quarter of 2015 the major market indices that track prices rose by +5% year-on-year.

During the course of 2015, the consumer price index continued to fall, reaching 0.1% in October, the latest figure available (formerly 1.3% in the same period of the previous year). Core inflation, however, has gone up from 1.7% in January to 1.9% in October. The index of producer prices of industrial products fell sharply hitting the lowest point in September (-6.5%) before rising in the October survey (-5.7%, formerly +0.6% in the same period of the previous year).

***Japan***

In the third quarter of 2015, the Japanese economy apparently relapsed into a technical recession (-0.8%, formerly -0.3% in the second quarter) due to the knock-on effect of an inventory adjustment (-1.9%). In October, however, industrial production started growing again (1.4% month-on-month); this trend would seem to indicate that the correction mentioned above will be partially reabsorbed. It is expected that this condition will allow GDP to start growing again.

Private consumption, after declining in the previous quarter (-0.7%), picked up in the third quarter, also because of low inflation (+0.3%), conditioned above all by the trend in energy consumption (-11.8%). Due to the sharp drop in the production prices of goods and imports, the expansive monetary policies adopted by the Central Bank have not yet managed to eradicate the danger of deflation; even though monetary policy remained expansive in the entire second half of the year. Like other Asian countries, Japan has reduced the weighting of its foreign trade: both exports (-4.4%) and imports (-2.6%) decreased, with a negative contribution to GDP of 0.3 percentage point.

***Emerging Economies***

The oil crisis is still conditioning the Russian economy: in the third quarter, GDP fell by 4.1% (-4.6% in June) because of difficulties in investment and private consumption. The confidence indicators suggest a prospective weakness for households and companies also based on end-2015 data. These trends are linked to the country's weaknesses, which have become well-established: the fall in real wages (-8.5% in the first half), which have absorbed the adjustment in the labour market and prevented a sharp rise in unemployment, has had negative consequences on consumption, exacerbated by the difficult credit conditions due to high interest rates and banks' aversion to risk. The trend in investment continues to be affected by financing conditions that are accompanied by increasingly weak demand, geopolitical uncertainty, the continuation of trade sanctions and low oil prices. The fall in demand has stimulated a major reduction in stocks (-38%). Monetary policy has slowed the expansion cycle because of persistent inflation; the recent resumption of the rouble's devaluation could lead to even greater prudence, while in providing support for the economy fiscal policy remains conditioned by the need to correct the budget deficit. Inflation in October stood at 12.9%. Overall, Russia is expected to remain in this recession for the whole of 2016 and there is a few to suggest for a more rapid recovery.

In the third quarter of 2015 China's GDP grew by 6.9% (7% in June). The OECD's leading indicator is expecting weak growth in the coming months as well. In fact, the main economic indicators are showing a constant weakening characterised by: lower growth in gross fixed investment in urban areas (less than 11%), a slowdown in industrial production (just over 6%) and in retail sales (just over 11%). Devaluation of the exchange rate does not seem to be affecting inflation, which remains low (1.6%), even in December. This situation triggered off a period of distinct instability in Asian stock markets that has continued into the first few weeks of 2016, contributing (along with the trend of oil prices) to the considerable volatility in financial markets. In order to counter the economic slowdown, the Authorities are implementing a series of policies designed to accelerate infrastructure investment, especially for transport, promoting on the one hand administrative action to facilitate the entry of new firms and public-private partnerships to implement these investments and, on the other, acting on credit by injecting liquidity into the market, drawing on international reserves. The economic data and the prospects of international trade suggest an outlook of very prudent growth in the Chinese economy towards the end of the year and in 2016, with the figures substantially constant (+6.1%), given that the phase of investment-led growth has reached limits of production capacity that are unlikely to be exceeded, while the debt situation now requires a period of adjustment for both the quantity and quality of the debt.

In India, GDP grew in the third quarter as well (+7.4%), an increase compared with the previous quarter's posting (+7%), thanks to the trend in consumer spending, which is still very robust, and a stronger investment dynamic which continues to be bolstered by the public sector. Monetary policy remains expansive, as confirmed by the 50 bps cut in the reference interest rate in September (to 6.75%, from 7.25%). The country still has issues concerning public finances, not so much tied to the amount of the overall deficit, but to the allocation of expenditure, the current component of which has increased to the detriment of capital investment. The international context of weaker demand and slow implementation of the reforms has lead to an assessment of future growth at the end of 2015 that is less dynamic than was estimated in the second quarter. The most important risk relates to the instability of the financial and currency markets during this phase of abandoning zero interest rates in the United States, a risk that could lead to a credit squeeze and higher inflation in the country.

In Brazil, GDP in the third quarter of 2015 posted a further contraction of 4.4% (formerly -2.9% in June). Industrial production has been slowly declining since the beginning of the year and, net of seasonal factors, is showing an average annual negative change (-5.8%).

The growth in the Brazilian economy is also being affected by political factors; on the one hand, the spreading Petrobras scandal is affecting the confidence of national and foreign operators, while, on the other, fragmentation of the government majority makes it harder to approve the structural reforms needed to break the deadlock in the country. Despite the slowdown, inflation in December was up (+5.6%) compared with the previous quarter (+5.4%). For Argentina and Venezuela, 2015 was a very difficult year: Argentina's presidential election left the economic context more or less in a state of stagnation; in Venezuela, the government's desire to focus on reducing its foreign debt limits the resources allocated in the country, with a subsequent deterioration in the socio-economic conditions of the population. The dependence of the Mexican economy on the United States will allow the country to benefit from the US recovery expected to take place in 2016; at the same time, overcoming the political uncertainty in Argentina will lay the foundation for reformist forces able to get the country on the move again. These trends will allow the entire area to counter the Brazilian recession which, in all probability, will continue in 2016.

***Europe***

The Eurozone economy continues its moderate rate of growth: in the third quarter of 2015, GDP grew (+1.2%) though this was slightly down on the previous quarter (+1.4%). The trend is linked to two factors above all: the resilience of the German economy (+0.3%), despite the deterioration in the economic indicators of the summer months and the Volkswagen affair, as well as the trend in sustained household consumption that is spreading to all countries in the area, fostered by an improvement in the terms of trade.

Starting in August last year, industrial production grew without a break until February 2015, subsequently falling slightly. In September, the Eurozone's industrial output posted a decline of 0.3% (formerly +0.4% in August), despite the growth in Germany (+0.2%) and France (+0.6%).

In September, new manufacturing orders showed an overall decline of 0.6% (formerly +3.4% in August).

They also fell in Germany by 0.6% (+2.0% in August). Retail sales in October recorded an increase (2.7%), mainly thanks to positive contributions by France (+3.6%) and Germany (+2.2%). In November, the index of business confidence deteriorated (-3.2, formerly -2.0) because of the negative signals coming from Germany (-3.2, formerly -2.3) and France (-6.4, formerly -3.2). The consumer confidence index, on the other hand, rose (-5.9, formerly -7.5), mainly thanks to the improvement in France (-11.9, formerly -16.7). The labour market is continuing to show signs of improvement: in October, unemployment fell to 10.7% (having been 10.8% in September). Inflation is still around an all-time low: in October, consumer prices rose by 0.1% after the low reached in January (-0.6%). The decline affected all of the main Eurozone countries.

Core inflation, however, stood at 0.9%, up from 0.8% on the previous month. Overall, the improvement in the economic indicators strengthens the prospects for a recovery, enabling the Eurozone to close 2015 with GDP rising by +1.5% (+0.9% at the end of 2014). However, the weakness of the international environment will not allow further acceleration. Looking forward, the uncertainty caused by the fragility of emerging markets remains high, although the expected reduction in the price of oil in 2016 and Europe's still expansionary economic policy (fiscal and monetary, the latter characterized by reference rates still at the current minimum levels until the first quarter of 2018 and by further unconventional expansionary measures in the event of a risk of deflation) should enable the Eurozone's GDP to maintain an average annual growth rate similar to that of 2015 (+1.5%).

***Italy***

At the end of the third quarter of 2015, GDP grew by +0.2% over the previous quarter and +0.8% on an annual basis.

Major contributions to total demand derived from domestic demand net of stocks (+0.2%), household consumption (+0.2%) and changes in inventories (+0.3%). On the other hand, the negative contributions to GDP growth have come from gross capital investment (-0.1%) and net foreign demand (-0.4%).

In October 2015, the seasonally adjusted industrial production index went up (+0.5% on a monthly basis): The indices adjusted for calendar effects show increases in capital goods (+4.8%), intermediate goods (+2.4%), consumer goods (+2.1%) and energy (+2.0%). In September, after the amazing result of July (+10.4%), new manufacturing orders dropped slightly (-0.8%). Retail sales, by contrast, have maintained the growth trend (+2.0%, formerly +2.6%).In November, the household confidence index improved (-1.2 formerly -2 in October), while that of companies deteriorated (-1.1, formerly 0.5 in October). As regards the labour market, unemployment improved in October (11.5%, formerly 11.6% in September) although youth unemployment got slightly worse (39.8%, 39.4% in September).

The harmonised index of consumer prices rose in October (+0.3%, formerly +0.2% in September), similar to core inflation (+1.0%, formerly +0.8% in September).

## 2.2 - CAPITAL MARKETS AND THE BANKING SYSTEM IN ITALY

***Financial and monetary markets***

The European reference rate also remained the same in December (at 0.05%); The Federal Reserve, on the other hand, raised its benchmark rate for the first time since the start of the crisis (now in a range between 0.25% and 0.50%), suggesting further increases during the course of 2016.

In the first ten days of December, the 3-month Euribor was negative and at an all-time low (-0.12%); the 10-year IRS rate, on the other hand, was at 0.91%, 29 bps less than in June (1.20%).

On the bond market, 10-year benchmark rates rose in the USA (2.27%, formerly 2.16% in September) but fell slightly in the Eurozone; in Germany, the benchmark rate came to 0.55% (from 0.68% in September), while in Italy it was 1.58% (from 1.84% in September). The average spread in November between the yield on 10-year Italian and German government bonds was therefore on the decline, coming in at 103 bps (having been 116 in September).

At the end of 2015, international share prices were up, both on a monthly basis and on an annual basis. The Dow Jones Euro Stoxx index rose by +3.9% m/m (+9.7% y/y), the Standard & Poor's 500 rose by +2.8% (+1.7% y/y) and the Nikkei 225 rose by +6.4% (+14% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by 0.3% (+14.3% y/y), in France the CAC40 rose by 4.1% (+15.2% y/y), while in Germany the DAX30 rose by 7.5% (+15.8% y/y).

With reference to the main banking indices, despite the monthly volatility, the indicators largely maintained the annual trend of the main stock prices: the Italian FTSE Banks declined by -2.8% m/m (+17.1% y/y), the Dow Jones Euro Stoxx Banks by -0.3% m/m (-0.1% y/y) and the S&P 500 Banks rose by +5.8% m/m (-3.8% y/y).

In early 2016, the markets experienced high volatility triggered off by the tensions between Iran and Saudi Arabia, and by concerns about growth in China.

***Banking markets***

At the end of 2015, after the recovery seen in October (+0.2%), the annual trend in deposits from resident customers turned negative again (-0.6% y/y). The trend in deposits continues to be positive (+3.7%), whereas bonds are showing a strong contraction (-12.9%). This trend is projected to get worse because of the events that are affecting the four banks saved from collapse. The review of the different components shows a clear gap between the short-term and medium/long-term sources. Deposits from resident customers (net of central counterparties) rose in December by +3.7% y/y, whereas bonds continued their sharp decline, already recorded in 2014. Foreign deposits also maintained their upward trend, as seen in previous postings (+3.1% y/y, formerly +7.8% in September).

The average remuneration of bank deposits was 1.19%, decreasing again on the previous quarter (1.25%). The interest rate on euro deposits of households and non-financial companies came to 0.53% (0.55% at the end of the third quarter), while the rate on bonds came to 2.94% (formerly 3.02%) and 0.91% on repurchase agreements (0.96% in the previous quarter).

In December, bank loans to households and businesses improved (+0.1%, formerly 0.2% in September) with continuous signs of improvement month-on-month, although overall they maintained weak exit rates. In detail, this trend can be seen in total loans to residents in Italy (+0.1% y/y, formerly -0.1% in September), in loans to the private sector (-0.02% y/y, formerly -0.2%), as in loans to households and non-financial companies (+0.45% y/y, formerly -0.3%). In November, loans to households grew by 0.8% y/y (former +0.3% in September), as did those to companies (-0.2%, formerly +0.8%). Breaking down loans by duration, the medium/long-term component posted an annual increase already started in September (+2.2%, formerly +1.4%), whereas the short-term one remains negative but getting better (-4.8% y/y, - 5.5% in September).

Overall, lending during the fourth quarter of 2015 was influenced by the trend in capital investment and the weak economic cycle; in November, gross doubtful loans grew by 11% y/y (+13.3% in September), with a percentage of total loans of 10.4% (formerly 10.5% in September). The ratio of net doubtful loans/total net loans comes to 4.89% (4.84% in September).

The latest available CERVED data (June 2015) show that businesses that have opened bankruptcy proceedings have decreased by 6.8% y/y, thanks to general improvements in our country, especially in the industrial sector.

Interest rates on new loans have remained low; the rate on home purchase loans to families came to 2.51% (formerly 2.66% in September). In November, the share of the flow of fixed-rate loans was 66.0% (formerly 64.9% in September). The rate on new loans to non-financial companies fell to 1.99% (formerly 2.05% in September). Overall, the weighted average interest rate on total loans to households and non-financial companies in December came to 3.26% (formerly 3.34% in September), a new all-time low recorded in 2015. In December, the spread between the average rates on loans and deposits amounted to 2.07%, a slight decrease on the previous postings (formerly 2.09% at the end of the previous quarter), but still far from the pre-crisis value (3.29% at the end of 2007).

# 3 - REGIONAL MARKET PRESENCE AND CORPORATE ISSUES

## 3.1 - THE DISTRIBUTION NETWORK

The distribution network, which is characterised by the high centrality of the customer relationship, aims to focus on markets where the Bank has its roots, on adjacent and complementary areas, as well as on other local opportunities and to lead the Bank to increase its presence over the years in Lombardy, the territory of origin, and to expand into Emilia Romagna, Piedmont, Liguria, Tuscany and Veneto, in addition to Lazio through the former subsidiary Banco Desio Lazio S.p.A., which has been absorbed into the Bank on 1 October 2014.

As detailed in the paragraph below on "Significant events", effective for legal purposes as of 1 April 2015, Banco contributed to its subsidiary Banca Popolare di Spoleto S.p.A. 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 Bank. These transactions are part of the rationalisation of the Group's distribution network aimed at strengthening the competitive positioning of the Bank in the North and, for Central Italy, at concentrating the branches in Lazio and Tuscany in Banca Popolare di Spoleto, together with those in Umbria, Marche and Abruzzo regions.

Therefore, at 31 December 2015 the distribution network of the Bank consisted of 149 branches compared with 180 branches at the end of the previous year.

During the year, measures were completed to restructure the Bank's distribution network with a view to strengthening its regional presence through structured and coordinated development as envisaged by the Corporate Affairs Department.

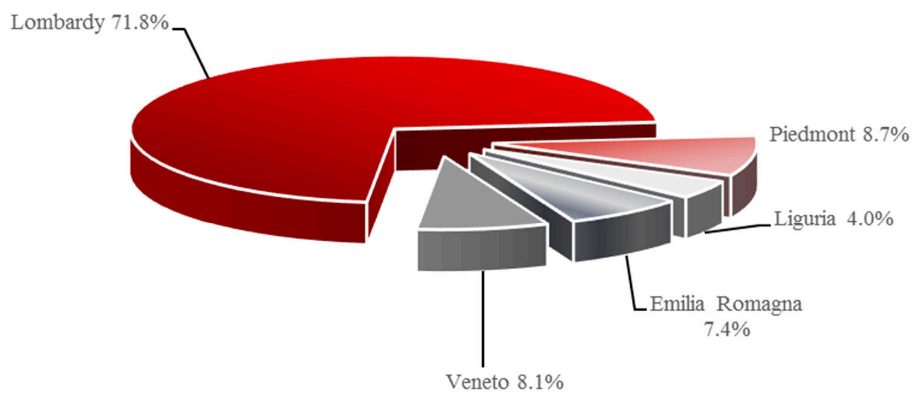
This project consisted of the organisation of the distribution network into seven regional Areas, each of which is supervised by an Area Manager and for which it is envisaged that each Area will be assigned the following roles to support its Area Manager:

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

The above activities involved a review of branch sizes and having resources focus more on business development and customer support. The Bank 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 Group continued strengthening its online product offering also in 2015, both in terms of new features and interest on the part of customers, who now carry out almost 50% of transactions through on-line platforms.

The following chart shows the breakdown of the Group's distribution network by region at the end of 2015.

**Graph no. 1 - BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK BY REGION**




## 3.2 - SIGNIFICANT EVENTS

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

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

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 non-performing loans (doubtful and unlikely to pay 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 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 clientèle is likely to assume.

In view of the above, the objectives of the business plan 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 allowed BPS to strengthen its role in "Central Italy", particularly in Tuscany and in Lazio (14 and 35 branches respectively). This should result in benefits, mainly in terms of efficiency and profitability, cost synergies and simplification, taking into account the extent to which the existing networks of Banco Desio and of BPS are complementary. The Contribution took place under the terms of a deed executed on 31 March 2015, effective for legal purposes as of 1 April 2015. In this regard, notification has been published in the Official Gazette pursuant to art. 58 of the CBA (also available on the websites of the Parent Company and of BPS).

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

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

For the purposes of the Contribution, the same Extraordinary Shareholders' Meeting approved, effective as of 1 April 2015, the proposed increase in capital with exclusion of option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, reserved for Banco Desio for a total of Euro 90,628,000 (the "Capital Increase to Service the Contribution"), by issuing a total of 50,015,453 newly issued ordinary shares to be paid by means of the Contribution.

In determining the terms and conditions of the Contribution, the Parent Company and BPS adopted appropriate procedures aimed at safeguarding the interests of the respective shareholders. 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 (CFA). 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 determining the Capital Increase to Service the Contribution.

As a result of the Contribution, Banco Desio held 128,240,177 BPS ordinary shares, equal to 81.71% of the share capital.

At 31 December 2015, 16,905 warrants have been converted and as many shares subscribed. The share capital has increased to a total of Euro 314,995,272.70 corresponding to no. 156,960,843 Shares. The share held by Banco Desio remained more or less unchanged at 81.70%. Due to the effect of any future subscription for Conversion Shares by the owners of BPS ordinary shares, other than Banco Desio, as the result of their exercise of the Warrants allocated thereto, this holding could decrease to 76.31% by 30 June 2017.

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

For the accounting treatment of the two extraordinary transactions which involved entities controlled by a common shareholder (operations that are not specifically regulated by IAS/IFRS), reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements".

In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

The Contribution and the Purchase/Sale of the Branch, jointly considered, are deemed to be "significant" intercompany transactions in accordance with legislation governing related party transactions. In accordance with this legislation, on 24 December 2014, BPS made available to the public an information document (available on BPS's website). On 13 March 2015, BPS also made available to the public an additional information document relating to the aforementioned transactions, given that they were deemed to be "significant" pursuant to Consob's Issuers’ Regulations (available on BPS's website).

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

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

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

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

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

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

As of 24 June 2015, at the request of certain former directors of BPS who had already filed an appeal against the MEF decree, the former General Manager and some members of the Issuer, and certain former directors of Spoleto Crediti e Servizi Soc. Coop, several appeals were notified to the Issuer, in its capacity as defendant, by them against the Bank of Italy and the MEF before the Lazio Regional Administrative Tribunal (TAR) to appeal against the decree of 20 April 2015, and before the Council of State for a compliance judgement with regard to that sentence. The hearing took place on 1 December 2015 before the Council of State, whose decision is pending.

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

***Financial Reporting Manager***

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

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

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

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

The contributions were communicated by the competent authorities (the Bank of Italy as the resolution authority and the FITD as the authority for the protection of guaranteed deposits) in November. Contributions, including the tax effects, totalled 8.1 million euro and involved in particular:

- Euro 1.8 million for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for 2015;
- Euro 5.3 million for the extraordinary contribution to the SRM as a result of the resolution measures taken by the Bank of Italy after approval of Legislative Decree 180/2015 by the Government;
- Euro 1 million for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for 2015.

***Contribution to the solidarity fund***

The 2016 Stability Law provides for the establishment of a solidarity fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara.

The Solidarity Fund is financed on the basis of the financial needs related to the services performed by the Interbank Deposit Protection Fund (IDPF) up to a maximum of Euro 100 million. Pending definition of the organisational and operational aspects of the system with the enactment of special ministerial decrees, the Bank considered the probability of enforcement to be high ("more likely than not") and has therefore made a risk provision for a probable liability (as defined by IAS 37) of Euro 466 thousand.

***Credito Privato Commerciale S.A. in liquidation***

The liquidation process of the Swiss subsidiary CPC is substantially completed:

- on 23 September 2015, upon completion of the other liquidation activities being carried out, considering the small number of relationships remaining in place, the subsidiary's Board of Directors decided to keep the books in Euro from 1 October 2015, as well as to prepare the accounts in Euro (with an indication of the corresponding amounts in Swiss Francs as required by applicable law).

- on 1 October 2015, the Extraordinary Meeting of CPC resolved, with the approval of FINMA, the amendments to its articles of association required to stop the company being subject to banking legislation and therefore to supervision by FINMA, after giving up its banking and "securities dealing" licence (completing the statutory process required for these changes at the Commercial Register);
- when approving the financial statements for the period ended 30 September 2015, the liquidators issued their report on 2015, which confirmed that the liquidation process had been substantially completed.
- On 7 December 2015, the auditing firm PwC issued the following reports, which are also needed for FINMA to complete the above process:
  - Auditors' report to the Shareholders' Meeting on the liquidation's interim financial statements at 30.09.2015
  - Auditors' full report on the liquidation's interim financial statements at 30.09.2015
  - opinion on the withdraw procedure of the banking supervision.

This last document, as supplemented by a subsequent letter dated 14 December 2015, contains, among other things, an opinion on the so-called "escrow account" which, again in order to speed up closure of the liquidation process, was set up as a mechanism to protect the interests of the remaining third parties and worthy of protection under banking legislation, for an amount of Swiss Francs 0.9 million plus Euro 2.3 million.

The Bank has therefore revised the time and cost to formalise the company's radiation.

The change in functional currency therefore took place on substantial completion of the company's liquidation. Following this change, the valuation of Banco Desio's investment in CPC at the exchange rate of the 1 October 2015 resulted in the recognition of a gain of approximately Euro 7.8 million relating to:

- cumulative exchange rate differences on the value of the investment from the acquisition date to the date on which the hedge explained below was taken out;
- the avverse effect of the exchange rate from the date on which the hedge was taken out to 1 October 2015.

Since 1 October 2015 the Parent Company's stake was held in Euro and no longer in Swiss Francs, for a carrying amount of Euro 45.8 million (the book value translated at the exchange rate on 1 October 2015).

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

In January 2015, as a result of the decision by the Swiss National Bank to abandon the Swiss Franc's minimum exchange rate against the Euro, which had been set at 1.20 since September 2011, the Parent Company stipulated two flexible forward transactions for a total of 40 million Swiss francs against the Euro with an 18-month maturity to hedge the exchange risk on its investment in Credito Privato Commerciale S.A. in liquidation. In June, the Parent Company completed another deal for 10 million Swiss francs against the Euro expiring in December 2015.

The three transactions were closed in advance on 1 October 2015, together with the change in functional currency for keeping the books of the Swiss subsidiary Credito Privato Commerciale S.A. in Euro (as mentioned above), which took place after substantial completion of the liquidation.

***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, on 29 January 2016 Rovere S.d.G. and Rovere Sicav have carried out negotiations to merge the nine sub-funds managed by Rovere Sicav with those managed by AcomeA SGR (after completing the statutory and supervisory procedures required by the respective legal systems).

Following this merger, Rovere SdG will be sold or put into liquidation in the relatively near future.

***Istifid S.p.A.***

During the first few months of the year, Istifid S.p.A. completed the sale of the business unit that provided corporate services (keeping of shareholders' registers, assistance during shareholders' meetings, consulting on corporate compliance, etc.) to an operator that specialises in this specific segment.

On 11 January 2016, given the evolutions in the sector where the company operates, characterised by increasing concentration, the Board of Directors agreed to continue negotiations to sell its investment in this product company.

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

A general inspection of Banco Desio began on 14 September 2015. The inspection activities was completed on 24 December 2015, but the results still have to be communicated.

***Fides S.p.A.***

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

# 4 - SIGNIFICANT SUBSEQUENT EVENTS

No particularly significant events occurred after the balance sheet date.

# 5 - LEGISLATIVE DECREE 231/2001

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

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

The Model 231 has been published on the Group's website, together with the Code of Ethics.

# 6 - HUMAN RESOURCES

## 6.1 - MANAGEMENT AND BREAKDOWN OF RESOURCES

HR management follows unified, synergistic guidelines, enhancing expectations and fostering professional growth, as well as ensuring the sharing of values throughout the Bank and, more generally, the Group. This orientation, in line with the policy of regional development, accompanies the dissemination of information and growth in the regions of origin as well as growth as an interregional reality.

At 31 December 2015. employees were 1,411, with a decrease of 276 (-16.4%). This change is in fact related to the transfer of the business unit consisting of 32 bank branches (11 in Tuscany and 21 in Lazio) by the Bank to Banca Popolare di Spoleto S.p.A. on 1 April 2015 and to the simultaneous sale of the Milan branch by the subsidiary to the Bank, as well as to employees who have taken advantage of the "window" for voluntary access to the Solidarity Fund, thereby implementing the HR Programme adopted some time ago in connection with the redundancy plan.

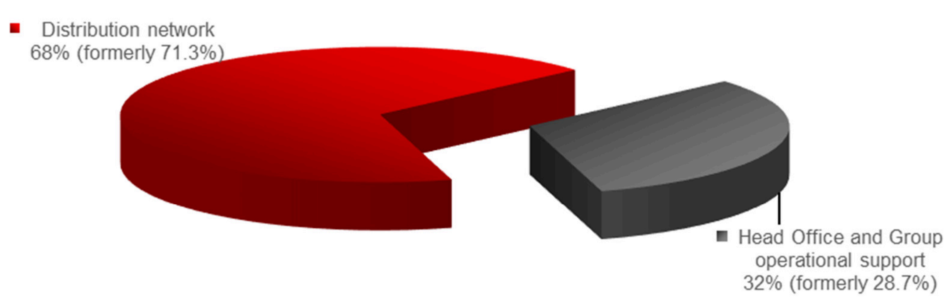
The following table analyses the breakdown of personnel employee level in comparison to the prior year.

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

| No. of Employees | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Managers | 24 | 1.7% | 23 | 1.3% | 1 | 4.3% |
| 3rd and 4th level middle managers | 338 | 24.0% | 401 | 23.8% | -63 | -15.7% |
| 1st and 2nd level middle managers | 411 | 29.1% | 474 | 28.1% | -63 | -13.3% |
| Other personnel | 638 | 45.2% | 789 | 46.8% | -151 | -19.1% |
| **Employees** | **1,411** | **100.0%** | **1,687** | **100.0%** | **-276** | **-16.4%** |

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

**Chart no. 2 - BREAKDOWN OF EMPLOYEES BY AREA**



The increase in the percentage of employees in General Management is due to the transfer of the business (the 32 branches) to Banca Popolare di Spoleto and further centralisation of various activities performed on behalf of the Group at the Bank's Head Office. The average age of employees at the end of the year end was almost 45, while the percentage of female staff was 37.1%.

## 6.2 - TRAINING

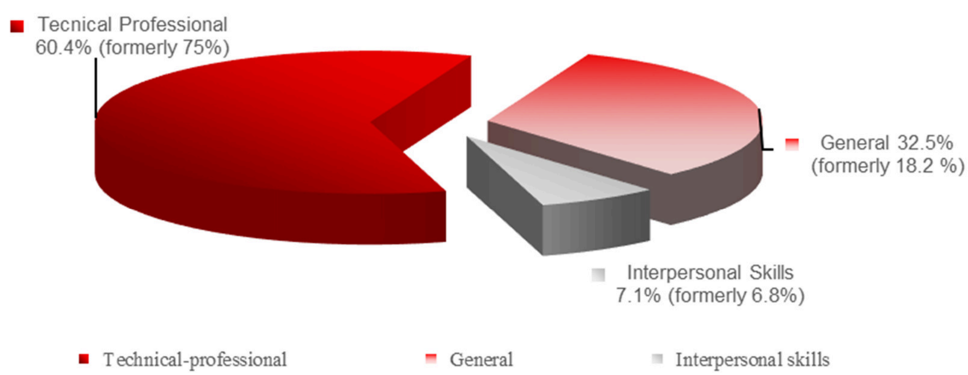
As regards training activities, which accompany processes of growth and development of resources, in compliance with Group guidelines and procedures, 8,410 man days of training were provided during the year, inclusive of internal courses, conferences, external seminars and online training activities that correspond to an average of 5.4 days of training for each employee.

The type of training offered can be summarised as follows:

- "General": courses addressed to all professional groups with the objective of developing transverse knowledge;
- "Technical-professional": comprises courses aimed at the development of technical skills of resources that have commenced the performance of specific duties and are interested in consolidating and further improving the skills required by the role;
- "Interpersonal skills": these courses are aimed at the development of behavioural skills and facilitate the spread of corporate culture as well as the internalisation of corporate values.

The following graph shows the breakdown in percentage terms of training days that were held in the 2015 by type of course.

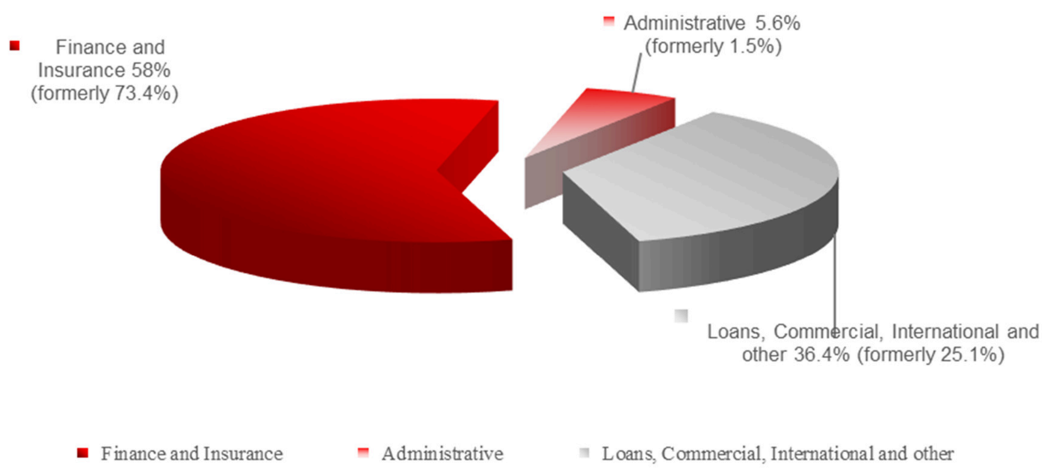
**Chart no. 3 - BREAKDOWN OF TRAINING DAYS IN 2015 BY TYPE OF TRAINING OFFERED**




As part of the general training and with the aim of continuously updating the staff's knowledge of legal requirements, around 2,700 man/days were provided through specific refresher modules on issues such as the Model 231, Anti-Money Laundering, Transparency, Safety at Work and Control Culture.

As regards "Technical-professional" training, the breakdown of the topics covered by the courses held is shown below in percentage terms.

**Chart no. 4 - BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2015 BY TOPIC**




We have held training activities within the Finance Area to support the release of the new customer profiling questionnaire and the new advisory model introduced in January 2016, the AIPB (Italian Private Banking Association) certification course for new private bankers and for the maintenance of those already certified, as well as for specific activities for the commercial planning of the managed portfolio.

Continuing what we started last year, we again held the modular course with periods of on-the-job training to improve our credit risk selection and monitoring skills. This was accompanied by training sessions following the release of the new "Credit Rating System" (CRS) and the new "Credit Origination" procedure, as well as a refresher course on the development of methodologies for assessing credit exposures (AQR - Asset Quality Review), which is also being looked into during 2016.

This area also includes the training activities on new products and tools for customer management and basic programmes involving the new recruits to train up as insurance brokers, in addition to the professional training for other members of staff authorised by IVASS.

As for the initiatives on "Interpersonal Skills", continuing the activities carried out during the previous year, we held training programmes for the network resources to help them develop commercial activities in their area and strengthen the relationship of trust which binds the customer to the Bank.

During the year, specific training programmes were also held for personnel in head office control functions with the aim of facilitating cooperation and interaction among them.

The attention paid by Banco Desio and by the Group to the growth and development of professional skills has again been acknowledged in 2015 by the Fondo Banche Assicurazioni (FBA), which provided funding for training activities during the year.

## 6.3 - INDUSTRIAL RELATIONS

On 31 March 2015 ABI and the trade unions signed the text of the draft agreement for the renewal of the National Collective Labour for the banking sector, which expired last year.

As regards redefinition of the Group's supplementary labour contract, the Trade Unions submitted their demands to the Company and negotiations will begin in the first few months of this year.

With a view to enhancing the efforts made by employees at all levels to achieve our business objectives, during the year the Bank offered all staff the opportunity to transform their company bonus into "flexible benefits" in the form of reimbursements, in terms of net utility based on recognised values, a series of services and/or various kinds of repayments in kind, including the costs of education, healthcare, supplementary pensions, etc.

# 7 - CONTROL ACTIVITIES

## 7.1 - THE LEVELS OF CONTROL IN THE MANAGEMENT CONTROL AND COORDINATION FUNCTION

In exercising its management control and coordination function, the Bank, in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to implement the specific “coordination model” that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent internal functions for the specific control mechanisms.

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

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

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

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

## 7.2 - THE INTERNAL CONTROL SYSTEM

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

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

## 7.3 - RISK MEASUREMENT AND MANAGEMENT

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

# 8 - RESULTS OF OPERATIONS

## 8.1 - SAVINGS DEPOSITS: CUSTOMER ASSETS UNDER ADMINISTRATION

Total customer funds under administration rose at the year end to Euro 17.3 billion, up by Euro 0.1 million (+0.4%), attributable to the increase in direct deposits (+1.8%) partly offset by the trend in indirect deposits (-0.5%).

The composition and balances that make up this aggregate are shown in the following table.

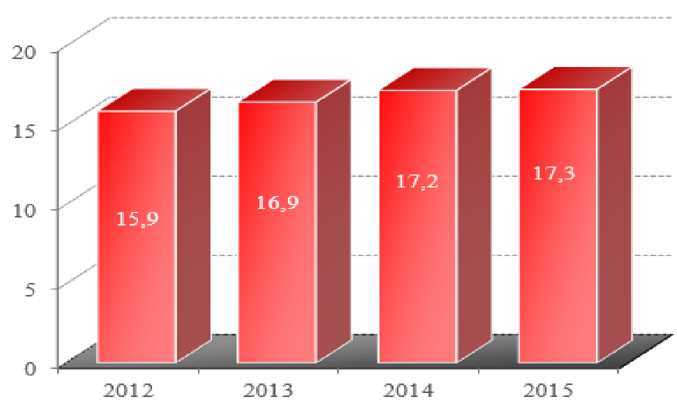
**Table no. 3 - CUSTOMER DEPOSITS**

*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Due to customers | 5,155,059 | 29.9% | 4,709,455 | 27.4% | 445,604 | 9.5% |
| Debt securities in issue and Financial liabilities designated at fair value through profit and loss | 1,648,515 | 9.5% | 1,978,647 | 11.5% | -330,132 | -16.7% |
| **Direct deposits** | **6,803,574** | **39.4%** | **6,688,102** | **38.9%** | **115,472** | **1.7%** |
| Ordinary customer deposits | 6,590,780 | 38.2% | 6,754,180 | 39.2% | -163,400 | -2.4% |
| Institutional customer deposits | 3,874,776 | 22.4% | 3,762,083 | 21.9% | 112,693 | 3.0% |
| **Indirect deposits** | **10,465,556** | **60.6%** | **10,516,263** | **61.1%** | **-50,707** | **-0.5%** |
| **Total customer deposits** | **17,269,130** | **100.0%** | **17,204,365** | **100.0%** | **64,765** | **0.4%** |

The trend in total deposits in the last three years is shown in the following graph, which shows an average annual growth rate of 2.8%.

**Chart no. 5 - TREND IN DIRECT DEPOSITS IN RECENT YEARS**




***Direct deposits***

The balance of direct deposits at the end of 2015 came to Euro 6.8 billion, up to 1.7%), compared to the previous year balance, posting an increase in due to customers (+9.5%) and the reduction in debt securities in issue and financial liabilities designated at fair value through profit and loss (-16.7%).

Due to customers of Euro 5.2 billion represents the most significant component as it makes up 75.8% of the total balance, of which some Euro 4.3 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.6 billion relates to restricted deposits and the remainder relates to repurchase agreements and other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed of some Euro 1.6 billion (including around Euro 0.3 billion of subordinated bonds) and the residual value of certificates of deposits. Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year 437 million euro (of which 13 million euro subordinated securities);
- _ between 1 and 3 years 662 million euro (of which 13 million euro subordinated securities);
- _ between 3 and 5 years 293 million euro (of which 100 million euro subordinated securities);

– _ beyond 5 years; 188 million euro (of which 130 million euro subordinated securities).

In the course of 2015 the total nominal value of bonds issued and placed amounted to about Euro 0.3 billion, whereas bonds redeemed on maturity amounted to about Euro 0.5 billion.

***Indirect deposits***

Indirect deposits declined in the year by almost Euro 0.1 billion, being a decrease of 0.5% on the prior year end balance, to some Euro 10.5 billion.

This is attributable both to ordinary customer deposits, amounting to some Euro 6.6 billion, with a decrease in the period lower than Euro 0.2 billion (2.4%) attributable to the performance of assets under administration -12.5%), partially offset by that of assets under management ( (+7%) and to the rise in institutional customer deposits of some Euro 0.1 billion (+3%), which came to Euro 3.9 billion at the end of the year.

The following table provides details of the items under review, highlighting the changes that have taken place since the prior year end.

**Table no. 4 - INDIRECT DEPOSITS**

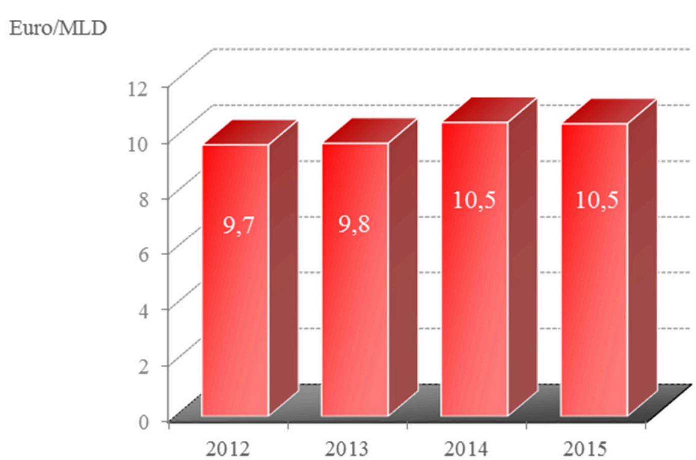
*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| **Assets under administration** | **2,859,053** | **27.3%** | **3,268,205** | **31.1%** | **-409,152** | **-12.5%** |
| **Assets under management** | **3,731,726** | **35.7%** | **3,485,975** | **33.1%** | **245,751** | **7.0%** |
| *of which: mutual funds and sicavs* | *1,131,017* | *10.8%* | *849,829* | *8.1%* | *281,188* | *33.1%* |
| *Managed portfolios* | *561,563* | *5.4%* | *406,952* | *3.8%* | *154,611* | *38.0%* |
| *bancassurance* | *2,039,146* | *19.5%* | *2,229,194* | *21.2%* | *-190,048* | *-8.5%* |
| **Ordinary customer deposits** | **6,590,780** | **63.0%** | **6,754,180** | **64.2%** | **-163,400** | **-2.4%** |
| **Institutional customer deposits (1)** | **3,874,776** | **37.0%** | **3,762,083** | **35.8%** | **112,693** | **3.0%** |
| **Indirect deposits (1)** | **10,465,556** | **100.0%** | **10,516,263** | **100.0%** | **-50,707** | **-0.5%** |

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for 2 billion euro (2.2 billion euro at 31.12.2014).

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 2.5% from 2013.

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




The following graph shows the breakdown in percentage terms of indirect ordinary customer deposits while the one below focuses on the breakdown of assets under management. Compared with the previous year's total, it highlights the increase in the majority share in favour of assets under management as opposed to assets under administration, in line with the previous year.

**Chart no. 7 - BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2015**

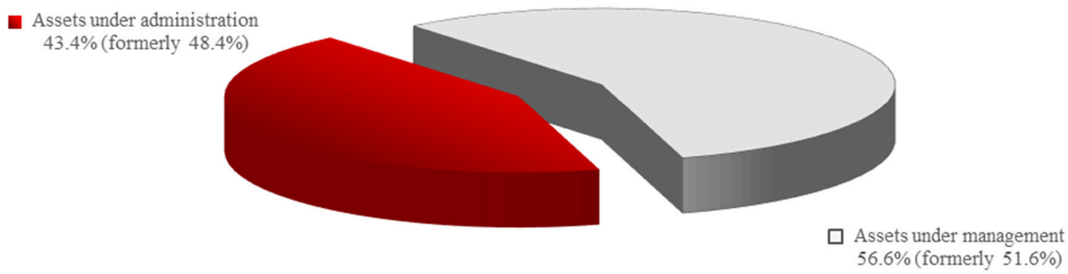
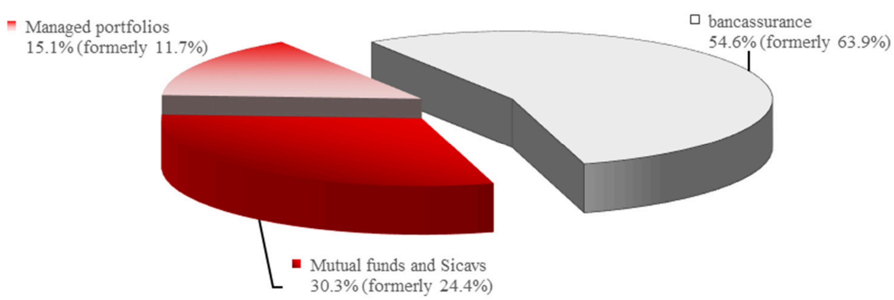



**Chart no. 8 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2015**




Within the various elements, namely mutual funds, sicavs and managed portfolios, there have been different trends in the various classes during the year. In equity markets, the best returns in terms of profitability have come from Europe and Japan, whereas the United States have provided little satisfaction; and emerging countries have posted substantial declines. As for bonds, expectations for rate hikes have been weighing on US government bonds, whereas the ECB's expansionary monetary policy enhanced returns of Eurozone government bonds. In managed bond portfolios, the management policy was essentially looking for investments whose performance was correlated as little as possible with interest rates. In managed equity portfolios, the constructive approach that led the Bank to have a level of investment in line with the benchmark was confirmed. A good level of geographical diversification, preference was given to the Eurozone and, in particular, to Italy.

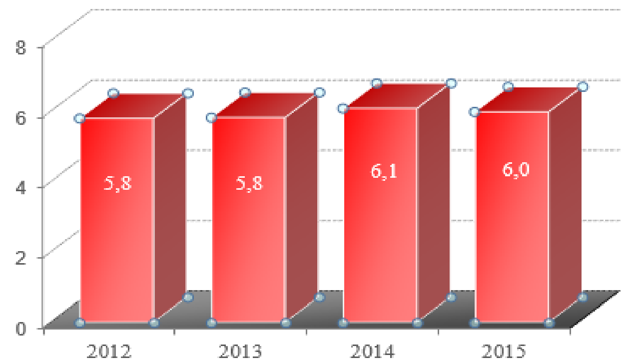
## 8.2 - CREDIT MANAGEMENT: LOANS TO CUSTOMERS

In confirmation of the support given to those seeking credit at system level, the value of loans to ordinary customers at 31 December 2015 came to around 6 billion euro, an increase of 0.1 billion euro on the previous year's balance (+1.7%).

Considering the elimination of the loans to institutional customers represented by repurchase agreements, around 0.2 billion euro, the total value of net lending to customers decreased by around 0.1 million euro (-1.6%).

The following chart shows the trend in loans in the last three years, reflecting an average annual compound growth rate of 1.1%.

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




Changes in the amounts of the components of loans to customers by technical form are summarised in the following table, while the subsequent table shows changes in the year by customer grouping.

**Table no. 5 - LOANS TO CUSTOMERS**

*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Current accounts | 1,613,606 | 27.0% | 1,489,863 | 24.5% | 123,743 | 8.3% |
| Mortgages and other long-term loans | 3,578,422 | 59.9% | 3,547,272 | 58.4% | 31,150 | 0.9% |
| Other | 785,805 | 13.1% | 841,078 | 13.8% | -55,273 | -6.6% |
| **Loans to ordinary customers** | **5,977,833** | **100.0%** | **5,878,213** | **96.7%** | **99,620** | **1.7%** |
| Repurchase agreements | | | 198,361 | 3.3% | -198,361 | -100.0% |
| **Loans to institutional customers** | | | **198,361** | **3.3%** | **-198,361** | **-100.0%** |
| **Loans to customers** | **5,977,833** | **100.0%** | **6,076,574** | **100.0%** | **-98,741** | **-1.6%** |

**Table no. 6 - BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER**

*Amounts in thousands of Euro*

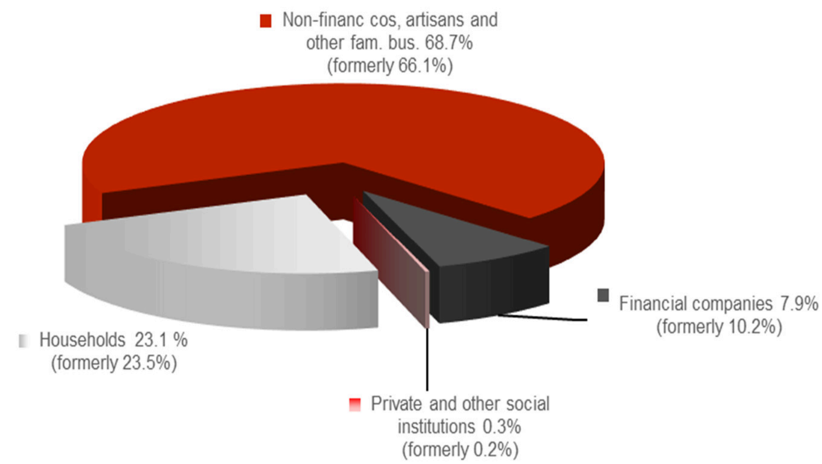
| **No. of Employees** | 31.12.2015 | % | 31.12.2014 | % | Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | % |
| Households | 1,383,156 | 23.1% | 1,425,117 | 23.5% | -41,960 | -2.9% |
| Non-financ cos, artisans and other fam. bus. | 4,106,495 | 68.7% | 4,014,362 | 66.1% | 92,133 | 2.3% |
| Financial companies | 471,879 | 7.9% | 622,423 | 10.2% | -150,544 | -24.2% |
| Private and other social institutions (1) | 16,303 | 0.3% | 14,673 | 0.2% | 1,630 | 11.1% |
| **Loans to customers** | **5,977,833** | **100.0%** | **6,076,574** | **100.0%** | **-98,741** | **-1.6%** |

(1) inclusive of financial and non-financial companies in the rest of the world.

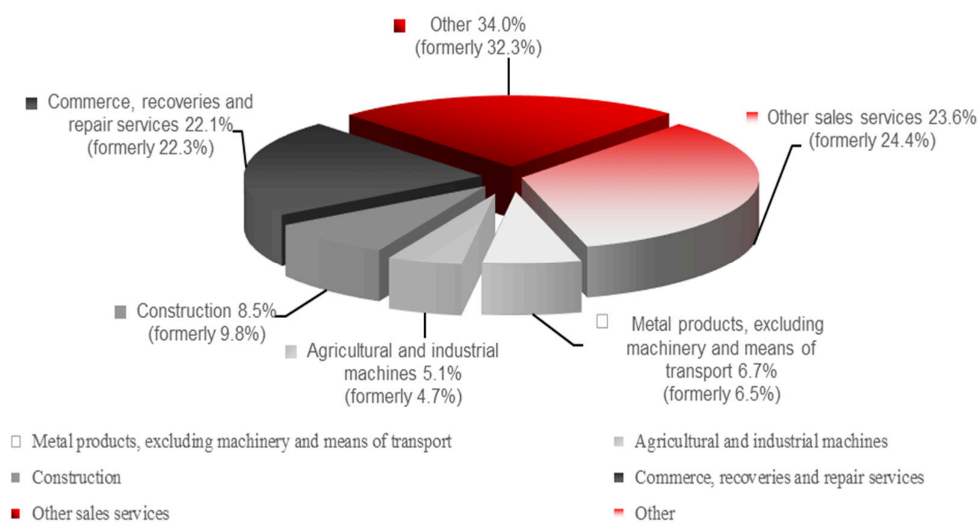
As can be seen, the growing value of loans to the category that includes non-financial companies, artisans and family businesses, amounting to Euro 4.1 billion, represents 68.7% of the total, versus a reduction in loans to financial companies.

The graph below shows the breakdown in percentage terms of loans at the 2015 year end by type of customer, while the subsequent graph focuses on the breakdown of loans to the customer categories non-financial companies, artisans and other family businesses according to the economic sector.

**Graph no. 10 - BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER**




**Graph no. 11 - BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2015 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES**




Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry.

Taken together, these loans represent 54.2% of the total corresponding to Euro 2.2 billion.

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2015 continues to reflect a high degree of risk diversification, although amounts are increasing as can be seen from the following table.

**Table no. 7 - CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

| Number of customers (1) | 31.12.2015 | 31.12.2014 |
|---|---:|---:|
| First 10 | 1.85% | 1.45% |
| First 20 | 3.01% | 2.49% |
| First 30 | 3.92% | 3.38% |
| First 50 | 5.53% | 4.74% |

(1) net of loans to the subsidiary FIDES S.p.A. (at 31.12.2014 also to Cassa di Compensazione e Garanzia S.p.A.).

In accordance with current supervisory regulations, at the end of 2015 there are three positions that are classifiable as "Major Risks" and which amount to a total nominal value (including guarantees given and commitments) of Euro 2.8 billion which, in terms of the total weighted amount, come to Euro 0.1 billion. These are exposures to the Group companies, the Treasury Ministry and Cassa di Compensazione e Garanzia S.p.A. (clearing house).

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.

The Bank's lending policies have absorbed the new rules on non-performing loans and the identification of performing and non-performing exposures subject to forbearance. The lending policies have also been further refined to reflect the process of updating the Bank's information on the valuation of real estate collateral.

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 Bank believes that the conditions exist for a probable default at the reference date.

Non-performing loans at the end of the prior year restated according to the new definitions of non-performing loans are in line with the non-performing loans calculated according to the Bank of Italy's previous guidelines.

The Bank's total amount of net non-performing loans made up of doubtful loans, “unlikely to pay” loans, non-performing past due and/or overdrawn exposures, came to Euro 462.9 million at 31 December 2015, net of adjustments of Euro 414.2 million, compared with Euro 476.3 million at 31 December 2014.

In particular, net doubtful loans totalled Euro 262.1 million, unlikely to pay, Euro 182.3 million and non-performing past due and/or overdrawn exposures Euro 18.6 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” loans and non-performing past due and/or overdrawn exposures) to render them comparable with the ratios at 31 December 2015.

**Table no. 8 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

| **% of gross loans** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Gross non-performing loans to customers | 13.65% | 10.83% |
| *of which:* | | |
| - gross doubtful loans | 9.26% | 6.88% |
| - unlikely to pay loans, gross | 4.05% | 3.43% |
| - non-performing past due and/or overdrawn exposures, gross | 0.34% | 0.52% |

| **% of net loans** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Net non-performing loans to customers | 7.74% | 6.64% |
| *of which:* | | |
| - net doubtful loans | 4.39% | 3.68% |
| - unlikely to pay loans, net | 3.05% | 2.47% |
| - non-performing past due and/or overdrawn exposures, net | 0.31% | 0.49% |

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 compared to the figures of the previous year.

**Table no. 9 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

| **% Coverage of non-performing and performing loans** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| % Coverage of doubtful loans | 55.94% | 49.19% |
| % coverage of doubtful loans, gross of cancellations | 65.75% | 63.21% |
| % total coverage of non-performing loans | 47.22% | 41.82% |
| % coverage of non-performing loans, gross of cancellations | 55.81% | 53.16% |
| % coverage of performing loans | 0.62% | 0.60% |

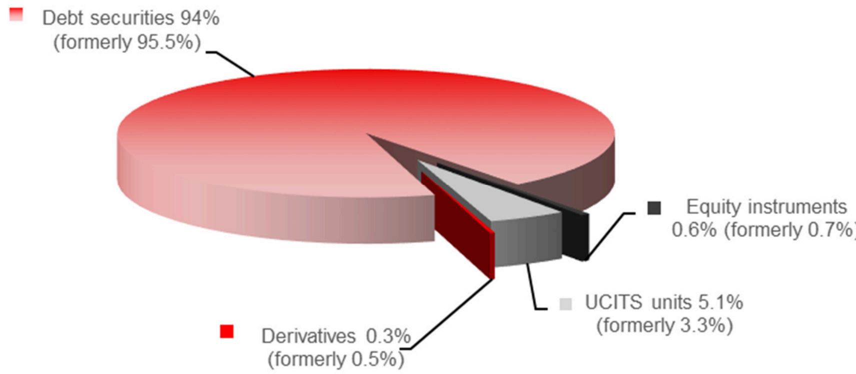
## 8.3 - THE SECURITIES PORTFOLIO AND INTERBANK POSITION

***Securities portfolio***

At 31 December 2015, the total financial assets of Banco Desio amounted to Euro 1.5 billion, an increase of Euro 0.2 billion compared with the end of the previous year (+12.9%).

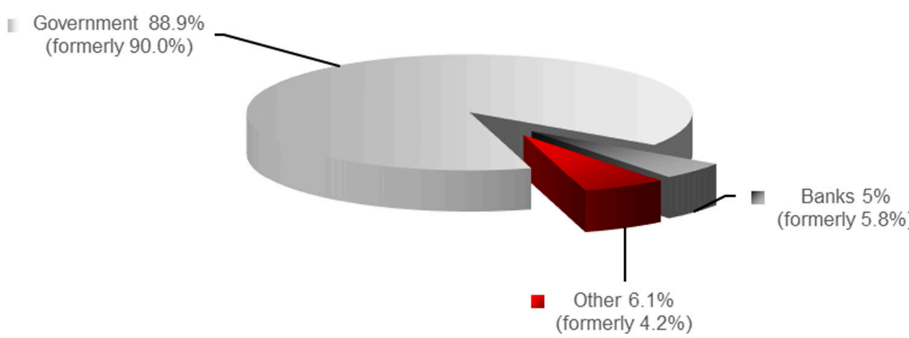
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (94%) of the investments still consist of debt securities.

## Graph no. 12 - BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2015 BY TYPE OF SECURITIES




With reference to the issuers of securities of the total portfolio at the end of 2015, about 89% relates to government securities, 5% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

## Graph no. 13 - % BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2015 BY TYPE OF ISSUER




The Bank's intense activity during the year was therefore characterised by trading above all in Italian government bonds.

Generally, Eurozone bond markets maintained a positive trend, fuelled in particular by the action taken by the European Central Bank to boost the business cycle's growth rate and avoid deflationary spirals. Quantitative easing resulted in the narrowing of spreads between "peripheral" and German government bonds, with negative returns on the curve up to 2 years for Italian government bonds and up to 5 years for German government bonds. Concerns about the sustainability of the global recovery, on the other hand, have weighed on corporate and emerging market bonds, especially those denominated in local currency.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Bank uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions. Banco Desio has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments.

In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral with predominantly daily margining and zero threshold. In such cases the other party is considered "risk free" and the Credit Value Adjustment (CVA) is zero.

During 2015 the first phase of migration to the new European platform for the settlement of securities transactions called Target2-securities ("T2S") has been completed, which involved the Italian system and therefore Monte Titoli, the central securities depository.

This platform, which was created to harmonise and unify the regulation of securities and cash transactions in Europe, immediately generated benefits in terms of simplification and standardisation of settlement procedures and optimisation in the management of liquidity easily transferable from the Dedicated Cash Account in T2S to the account at the Bank of Italy.

The Bank has considered an indirect connection with T2S as the most suitable for its operations and for the infrastructure and project investment costs; It has also joined the Target2 services for the cash component and the Monte Titoli central depository services for securities.

***Sovereign debt exposures***

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31.12.2015 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

## Table no. 10 - SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER

*Amounts in thousands of Euro*

| | | Italy | Spain | 31.12.2015 |
|---|---|---|---|---|
| Financial assets available for sale | Nominal value | 1,268,000 | 70,000 | 1,338,000 |
| | Book value | 1,295,061 | 71,816 | 1,366,877 |
| **Sovereign debt** | **Nominal value** | **1,268,000** | **70,000** | **1,338,000** |
| | **Book value** | **1,295,061** | **71,816** | **1,366,877** |

## Table no. 11 - SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY

*Amounts in thousands of Euro*

| | | Italy | Spain | 31.12.2015 | |
|---|---|---|---|---|---|
| | | | | Nominal value | Book value |
| Financial assets available for sale | up to 1 year | 181,000 | | 181,000 | 181,081 |
| | 1 to 3 years | 392,000 | | 392,000 | 393,463 |
| | 3 to 5 years | 240,000 | 70,000 | 310,000 | 312,713 |
| | over 5 years | 455,000 | | 455,000 | 479,620 |
| | **Total** | **1,268,000** | **70,000** | **1,338,000** | **1,366,877** |
| **Sovereign debt** | **up to 1 year** | **181,000** | **0** | **181,000** | **181,081** |
| | **1 to 3 years** | **392,000** | **0** | **392,000** | **393,463** |
| | **3 to 5 years** | **240,000** | **70,000** | **310,000** | **312,713** |
| | **over 5 years** | **455,000** | **0** | **455,000** | **479,620** |
| | **Total** | **1,268,000** | **70,000** | **1,338,000** | **1,366,877** |

***Net interbank position***

The net interbank position at year-end is negative for Euro 0.4 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.5 billion.

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

## 8.4 - SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity at 31 December 2015, including net profit of the year, increased to Euro 852 million compared with Euro 817.8 million at the 2014 year end.

Shareholders' equity calculated in accordance with the Bank of Italy's regulatory provisions, defined as Own Funds, with an expected pay out of not more than 30.33%, amounts at 31 December 2015 to Euro 1,051.6 million (CET1 + AT of Euro 833.4 million + T2 of Euro 218.2 million),increases of 138.6 million euro from the amount of 913 million euro recorded at 31 december 2014.

At 31 December 2015, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 15.8% (13.7% at 31 December 2014). The Tier 1 ratio (T1/Risk-weighted assets) was 15.8% (13.8% at 31 December 2014), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 20.0% (15.8% at 31 December 2014).

The minimum capital required by law for 2015 for banks that belong to a banking group, including the capital conservation buffer of 0.625%, amounted to 5.125% for the Common Equity Tier 1 ratio, 6.625% for the Tier 1 ratio and 8.625% for the Total Capital ratio.

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

## 8.5 - RECLASSIFIED INCOME STATEMENT

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

As stated in the "Introduction", for comparative purposes with the previous year, the item "Profit (loss) after tax on non-current assets held for sale" includes the values reclassified from other items in the income statement related to the first quarter 2015 contribution made by the 32 branches in Tuscany and Lazio included in the scope of the business unit transfer by Banco Desio to Banca Popolare di Spoleto SpA, which took place with effect on 1 April 2015. The previous year balance of 14.2 million euro grouped in the same caption - pursuant to IFRS 5 - the reclassified values from other income statement captions related to the same branches

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 190 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 150b) "Other administrative expenses" and as an increase in caption 180 "Net adjustments to intangible assets", net of other decreases in item 150a) "*Payroll costs"* included in "Operating expenses";
- dividends receivable from investments in subsidiaries have been reclassified from caption 70 "Dividends and similar income" to the caption "Dividends from investments in subsidiaries" below "Result of operations";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" after "Operating profit";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions coming after the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off", as well as gains on disposal of financial assets available for sale, have been reclassified to the caption "Extraordinary provisions for risks and charges/other provisions and expenses/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,the financial year 2015 closed with a net profit of Euro 37.4 million, an increase of Euro 4.5 million compared with the previous year +13.5%).

## Table no. 12 - RECLASSIFIED INCOME STATEMENT

*Amounts in thousands of Euro*

| Captions | | 31.12.2015 | 31.12.2014 | Change Amount | Change % |
|---|---|---|---|---|---|
| 10+20 | Net interest income | 155.452 | 159.858 | -4.406 | -2,8% |
| 70 | Dividends and similar income | 999 | 718 | 282 | 39,2% |
| 40+50 | Net commission income | 106.779 | 98.467 | 8.311 | 8,4% |
| 80+90+100 +110 | Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss | 30.131 | 50.277 | -20.146 | -40,1% |
| 190 | Other operating income/expense | 9.729 | 9.855 | -126 | -1,3% |
| | **Operating income** | **303.091** | **319.175** | **-16.085** | **-5,0%** |
| 150 a | Payroll costs | -114.559 | -114.937 | 378 | -0,3% |
| 150 b | Other administrative costs | -50.451 | -51.247 | 796 | -1,6% |
| 170+180 | Net adjustments to property, plant and equipment and intangible assets | -7.893 | -8.277 | 384 | -4,6% |
| | **Operating costs** | **-172.903** | **-174.461** | **1.558** | **-0,9%** |
| | **Result of operations** | **130.188** | **144.715** | **-14.527** | **-10,0%** |
| | Gains (Losses) on disposal or repurchase of loans | -449 | -1.634 | 1.185 | -72,5% |
| 130 a | Net impairment adjustments to loans and advances | -89.052 | -125.758 | 36.706 | -29,2% |
| 130 d | Net impairment adjustments to other financial assets | -339 | 546 | -885 | n.s. |
| 160 | Net provisions for risks and charges | -2.050 | -2.283 | 233 | -10,2% |
| | Dividends from equity investments in subsidiaries | 3.134 | 2.457 | 678 | 27,6% |
| | **Profit (loss) from operations before tax** | **41.432** | **18.042** | **23.390** | **129,6%** |
| 260 | Income taxes on current operations | -9.508 | -8.546 | -962 | 11,3% |
| | **Profit (loss) from operations after tax** | **31.924** | **9.496** | **22.428** | **236,2%** |
| 210 | Profit (loss) from equity investments | 7.857 | 2.585 | 5.273 | 204,0% |
| 240 | Gains (losses) on disposal of investments | 2 | 217 | -215 | -99,1% |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | -6.892 | 10.025 | -16.917 | n.s. |
| | **Non-recurring profit (loss) before tax** | **968** | **12.827** | **-11.859** | **-92,5%** |
| | Income taxes from non-recurring items | 2.123 | -3.495 | 5.618 | n.s. |
| | **Non-recurring profit (loss) after tax** | **3.091** | **9.332** | **-6.241** | **-66,9%** |
| 280 | Profit (loss) after tax on non-current assets held for sale | 2.430 | 14.158 | -11.728 | -82,8% |
| **290** | **Net profit (loss) for the period** | **37.445** | **32.986** | **4.459** | **13,5%** |

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

## Table no. 13 - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2015

*Amounts in thousands of Euro*

| Captions | | As per financial statements | Reclassifications | | | | | | | Reclassified income statement |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 31.12.2015 | Profit (loss) of non-current assets held for sale | Tax/expense recoveries | Dividends from subsidiaries | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Income taxes | 31.12.2015 |
| 10+20 | Net interest income | 164,303 | -8,851 | | | | | | | 155,452 |
| 70 | Dividends and similar income | 4,133 | | | -3,134 | | | | | 999 |
| 40+50 | Net commission income | 110,998 | -4,219 | | | | | | | 106,779 |
| 80+90+100 +110 | Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss | 29,683 | | | | | 449 | | | 30,131 |
| 190 | Other operating income/expense | 38,352 | -933 | -29,714 | | 2,024 | | | | 9,729 |
| | **Operating income** | **347,469** | **-14,003** | **-29,714** | **-3,134** | **2,024** | **449** | **0** | **0** | **303,091** |
| 150 a | Payroll costs | -122,253 | 3,371 | 4,130 | | | | 193 | | -114,559 |
| 150 b | Other administrative costs | -84,072 | 1,805 | 25,585 | | | | 6,232 | | -50,451 |
| 170+180 | Net adjustments to property, plant and equipment and intangible assets | -6,170 | 302 | | | -2,024 | | | | -7,893 |
| | **Operating costs** | **-212,495** | **5,477** | **29,714** | | **-2,024** | | **6,425** | **0** | **-172,903** |
| | **Result of operations** | **134,974** | **-8,526** | **0** | **-3,134** | **0** | **449** | **6,425** | **0** | **130,188** |
| | Gains (Losses) on disposal or repurchase of loans | | | | | | -449 | | | -449 |
| 130 a | Net impairment adjustments to loans and advances | -92,532 | 4,615 | | | | | -1,135 | | -89,052 |
| 130 d | Net impairment adjustments to other financial assets | -412 | 73 | | | | | | | -339 |
| 160 | Net provisions for risks and charges | -3,652 | | | | | | 1,602 | | -2,050 |
| | Dividends from equity investments in subsidiaries | | | | 3,134 | | | | | 3,134 |
| | **Profit (loss) from operations before tax** | **38,379** | **-3,838** | **0** | **0** | **0** | **0** | **6,892** | **0** | **41,432** |
| 260 | Income taxes on current operations | -8,793 | 1,408 | | | | | | -2,123 | -9,508 |
| | **Profit (loss) from operations after tax** | **29,585** | **-2,430** | **0** | **0** | **0** | **0** | **6,892** | **-2,123** | **31,924** |
| 210 | Profit (loss) from equity investments | 7,857 | | | | | | | | 7,857 |
| 240 | Gains (losses) on disposal of investments | 2 | | | | | | | | 2 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | | | | | | -6,892 | | -6,892 |
| | **Non-recurring profit (loss) before tax** | **7,859** | **0** | **0** | **0** | **0** | **0** | **-6,892** | **0** | **968** |
| | Income taxes from non-recurring items | | | | | | | | 2,123 | 2,123 |
| | **Non-recurring profit (loss) after tax** | **7,859** | **0** | **0** | **0** | **0** | **0** | **-6,892** | **2,123** | **3,091** |
| 280 | Profit (loss) after tax on non-current assets held for sale | 0 | **2,430** | | | | | | | 2,430 |
| **290** | **Net profit (loss) for the period** | **37,445** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **37,445** |

## Table no. 14 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2014

*Amounts in thousands of Euro*

| Captions | | As per financial statements | Reclassifications | | | | | | | Reclassified income statement |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 31.12.2014 | Tax/expense recoveries | Dividends from subsidiaries | Amortisation of leasehold improvements | Gains (Losses) on disposal or repurchase of loans | Provisions for risks and charges/other provisions and expenses | Gains on disposal of financial assets held to maturity | Income taxes | 31.12.2014 |
| 10+20 | Net interest income | 159,858 | | | | | | | | 159,858 |
| 70 | Dividends and similar income | 3,174 | | -2,457 | | | | | | 718 |
| 40+50 | Net commission income | 98,467 | | | | | | | | 98,467 |
| 80+90+100 +110 | Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss | 61,071 | | | | 1,634 | | -12,428 | | 50,277 |
| 190 | Other operating income/expense | 27,364 | -20,017 | | 2,509 | | | 0 | | 9,855 |
| | **Operating income** | **349,935** | **-20,017** | **-2,457** | **2,509** | **1,634** | **0** | **-12,428** | **0** | **319,175** |
| 150 a | Payroll costs | -115,178 | | | | | 241 | | | -114,937 |
| 150 b | Other administrative costs | -73,426 | 20,017 | | | | 2,162 | | | -51,247 |
| 170+180 | Net adjustments to property, plant and equipment and intangible as | -5,768 | | | -2,509 | | | | | -8,277 |
| | **Operating costs** | **-194,372** | **20,017** | | **-2,509** | | **2,403** | **0** | **0** | **-174,461** |
| | **Result of operations** | **155,563** | **0** | **-2,457** | **0** | **1,634** | **2,403** | **-12,428** | **0** | **144,715** |
| | Gains (Losses) on disposal or repurchase of loans | | | | | -1,634 | | | | -1,634 |
| 130 a | Net impairment adjustments to loans and advances | -125,629 | | | | | -129 | | | -125,758 |
| 130 d | Net impairment adjustments to other financial assets | 546 | | | | | | | | 546 |
| 160 | Net provisions for risks and charges | -2,413 | | | | | 129 | | | -2,283 |
| | Dividends from equity investments in subsidiaries | | | 2,457 | | | | | | 2,457 |
| | **Profit (loss) from operations before tax** | **28,067** | **0** | **0** | **0** | **0** | **2,403** | **-12,428** | **0** | **18,042** |
| 260 | Income taxes on current operations | -12,041 | | | | | | | 3,495 | -8,546 |
| | **Profit (loss) from operations after tax** | **16,026** | **0** | **0** | **0** | **0** | **2,403** | **-12,428** | **3,495** | **9,496** |
| 210 | Profit (loss) from equity investments | 2,585 | | | | | | | | 2,585 |
| 240 | Gains (losses) on disposal of investments | 217 | | | | | | | | 217 |
| | Extraordinary provisions for risks and charges, other provisions and losses / gains on disposal of financial assets held to maturity | | | | | | -2,403 | 12,428 | | 10,025 |
| | **Non-recurring profit (loss) before tax** | **2,801** | **0** | **0** | **0** | **0** | **-2,403** | **12,428** | **0** | **12,827** |
| | Income taxes from non-recurring items | | | | | | | | -3,495 | -3,495 |
| | **Non-recurring profit (loss) after tax** | **2,801** | **0** | **0** | **0** | **0** | **-2,403** | **12,428** | **-3,495** | **9,332** |
| 280 | Profit (loss) after tax on non-current assets held for sale | 14,158 | | | | | | | | 14,158 |
| **290** | **Net profit (loss) for the period** | **32,986** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **32,986** |

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

***Operating income***

Core revenues decreased by 16.1 million euro on the prior year, declining to Euro 303.1 million (-5%). The change is attributable to the lower contribution of 20.1 million euro from the aggregate of net income from trading, hedging and disposal/repurchase of loans, financial assets and liabilities measured at fair value (-40.1%), the reduction in net interest income of 4.4 million euro (-2.8%) and of other operating income/expenses for 0.1 million euro, which balance is net of the reclassification to operating expenses of 4.5 million euro related to the charge for outsourced services provided by the Bank to Banca Popolare di Spoleto S.p.A., of which 4.2 million euro as a reduction in personnel expenses and 0.3 million as a reduction in other administrative expenses. Increases are reported in net commission income, which, at Euro 106.8 million, has risen by Euro 8.3 million (+8.4%) and dividends and similar income up by Euro 0.3 million.

From the following table that shows the breakdown of net commission income by type, it can be seen that the increase is mainly attributable to commissions from the placement of securities.

**Table no. 15 - BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

*Amounts in thousands of Euro*

| | 31.12.2015 | % | 31.12.2014 | % | Change Amount | Change % |
|---|---|---|---|---|---|---|
| Collection and payment services | 15,976 | 15.0% | 14,780 | 15.0% | 1,196 | 8.1% |
| Placement of securities | 14,999 | 14.0% | 8,886 | 9.0% | 6,113 | 68.8% |
| Managed portfolios and order taking | 10,974 | 10.3% | 11,053 | 11.2% | -79 | -0.7% |
| Distribution of insurance products | 8,646 | 8.1% | 9,006 | 9.2% | -360 | -4.0% |
| Maintenance and management of current acco | 46,560 | 43.6% | 45,922 | 46.6% | 638 | 1.4% |
| Other commission | 9,623 | 9.0% | 8,820 | 9.0% | 803 | 9.1% |
| **Net commission income** | **106,779** | **100.0%** | **98,467** | **100.0%** | **8,312** | **8.4%** |

***Operating costs***

Operating costs, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets, show a decrease of Euro 1.6 million (-0.9%) respect to the comparative period, coming in at Euro 172.9 million.

In particular, the changes involved Payroll costs for Euro 0.4 million (-0.3%), net of Euro 0.2 million for the release of IAS discounting on the Solidarity Fund and early retirement incentives as the Redundancy Plan, reclassified to Non-recurring profit (loss), Other administrative expenses for Euro 0.8 million (-1.6%), net of advisory fees related to the plan for the acquisition of control and integration of Banca Popolare di Spoleto S.p.A. of some Euro 1 million (2.2 million euro in the previous year) and reclassified to Non-recurring profit (loss), as well as Net adjustments to property, plant and equipment and intangible assets for Euro 0.4 million (-4.6%).

It should be noted that the balance of Other administrative expense includes Euro 1.7 million of the *ex-ante* gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") for 2015 and Euro 1 million of the *ex-ante* gross ordinary contributions to the fund for the protection of guaranteed deposits ("DGS contributions - Deposit Guarantee Scheme") for 2015, under the resolution provision adopted by the Bank of Italy, after the approval of Legislative Decree 180/2015 by the Government, as indicated in the paragraph "Significant events, whereas the net of Euro 5.3 milion referred to the extraordinary gross contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") reclassified as non-recurring profit (loss) under "Extraordinary provisions for risks and charges/other provisions and expenses/gains on disposal of financial assets held to maturity.

***Result of operations***

The result of operations for the year comes to Euro 130.2 million, which, in comparison to the prior year result of Euro 144.7 million, is down by Euro 14.5 million (-10%).

***Profit (loss) from operations after tax***

Net impairment adjustments to loans and advances amounted to Euro 89.1 million, with a decrease on Euro 125.8 million of the previous year.

Losses from sale or repurchase of loans of 0.5 million euro, net allocation to provisions for risks and charges for 2 million euro, writedowns/writebacks for impairment of other financial transactions of 0.3 million euro and dividends from investments in subsidiaries of 3.1 million euro, as well as taxes on current operations for the year of 9.5 million euro lead to a profit from operations, net of taxes of 31.9 million euro, up by 22.4 million euro compared with the previous year (+236.2%).

Taxes on income from continuing operations include the positive effects of around Euro 3.2 million due for Euro 1.3 million to the reversal of deferred tax liabilities and the recognition of deferred tax assets on goodwill transferred for statutory purposes to Banca Popolare di Spoleto, for Euro 1.3 million to the reimbursement received from the Treasury for the rebate requested in 2009 under Decree Law 185/2008 (the so-called "Anti-Crisis Decree") for a 10% forfeit deduction of IRAP from the IRES tax base for the years 2004, 2005, 2006 and 2007 and for Euro 0.6 million to the net deferred tax assets recorded for IRAP purposes on the provisions for personnel charges set aside in previous years.

It should be noted that the balance of net provisions for risks and charges is net of Euro 0.5 million as the gross overall contribution due to the Solidarity Fund created on the basis of the 2016 Stability Law for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara (as mentioned in the section on "Significant Events") reclassified as non-recurring profit (loss) under "Extraordinary provisions for risks and charges/other provisions and expenses/gains on disposal of financial assets held to maturity.

***Non-recurring profit (loss) after tax***

At the end of the year, non-recurring profit after tax amounts to Euro 3.1 million, compared with Euro 9.3 million of the previous year.

The balance includes the effect of the revaluation of the investment in CPC S.A. in liquidation of about 7.9 million euro as a result of the conversion on 1 October 2015 of the functional currency of the subsidiary from CHF to Euro, the gross extraordinary contribution to the Single Resolution Mechanism (SRM) of 5.3 million euro and consulting fees in connection with the proposed acquisition and integration into the Group of Banca Popolare di Spoleto S.p.A. of approximately Euro 1 million, reclassified from other administrative expenses, 0.5 million euro as a gross contribution to the Solidarity Fund under the 2016 Stability Law reclassified from net provisions for risks and charges, the impact of the IAS discounting on Solidarity Fund and voluntary severance bonuses under the Redundancy Plan of 0.2 million euro and the related tax effects.

***Profit (loss) after tax on non-current assets held for sale***

As indicated in the introduction to this report, for comparison purposes, the caption "Profit (loss) after tax on non-current assets held for sale" includes the amounts reclassified from other income statement captions for first quarter 2015 results of the 32 branches in Tuscany and Lazio included in the scope of the business transfer by the Bank to Banca Popolare di Spoleto S.p.A. which took place with effect from 1 April 2015. The previous year balance of 14.2 million euro grouped in the same caption - pursuant to IFRS 5 - the reclassified values from other income statement captions related to the same branches

**Net profit for the period**

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result of non-current assets and groups of assets held for sale, leads to a net profit for 2015 of Euro 37.4 million, up by Euro 4.5 million compared with the prior year figure (+13.5%).

# 9 - OTHER INFORMATION

## 9.1 - INVESTMENTS IN BANCO DI DESIO E DELLA BRIANZA S.P.A. HELD BY MEMBERS OF THE BOARDS OF DIRECTORS AND STATUTORY AUDITORS, BY THE GENERAL MANAGER AND BY THE DEPUTY GENERAL MANAGER HOLDING OFFICE AT THE YEAR END

| Name and Surname | Offices held at Banco di Desio e della Brianza S.p.A. | Title / Nature of holding | Ordinary shares at 31.12.2014 | % | Savings shares at 31.12.2014 | % | Ordinary shares purchased | Savings shares purchased | Ordinary shares sold | Savings shares sold | Ordinary shares at 31.12.2015 | % | Savings shares at 31.12.2015 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agostino Gavazzi | Chairman | Owned | 78,244 | 0.067 | 0 | 0.000 | 0 | 0 | 0 | 0 | 78,244 | 0.067 | 0 | 0.000 |
| | | Bare ownership | 5,500 | 0.005 | 0 | 0.000 | 0 | 0 | 0 | 0 | 5,500 | 0.005 | 0 | 0.000 |
| | | Registered to spouse | 2,900 | 0.002 | 0 | 0.000 | 0 | 0 | 0 | 0 | 2,900 | 0.002 | 0 | 0.000 |
| Stefano Lado * | Deputy Chairman | Owned | 2,122,656 | 1.814 | 196,000 | 1.485 | 0 | 0 | 0 | 0 | 2,122,656 | 1.814 | 196,000 | 1.485 |
| | | Registered to spouse | 6,500 | 0.006 | 0 | 0.000 | 0 | 0 | 0 | 0 | 6,500 | 0.006 | 0 | 0.000 |
| | | Owned via Vega Finanziaria SpA | 6,885,730 | 5.885 | 571,522 | 4.329 | 0 | 0 | 0 | 0 | 6,885,730 | 5.885 | 571,522 | 4.329 |
| Tommaso Cartone | Chief Executive Officer | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Sandro Appetiti | Director | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Graziella Bologna | Director | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cristina Finocchi Mahne | Director | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Egidio Gavazzi | Director | Owned | 15,000 | 0.013 | 0 | 0.000 | 0 | 0 | 0 | 0 | 15,000 | 0.013 | 0 | 0.000 |
| Paolo Gavazzi | Director | Owned | 660,453 | 0.564 | 15,004 | 0.114 | 0 | 0 | 18,000 | 0 | 642,453 | 0.549 | 15,004 | 0.114 |
| Tito Gavazzi | Director | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Gerolamo Pellicanò | Director | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Gigliola Zecchi Balsamo | Director | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Luciano Colombini | General Manager | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Eugenio Mascheroni | Chairman of the Board of Statutory Auditors | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Rodolfo Anghileri | Acting Statutory Auditor | | 0 | 0.000 | 20,000 | 0.151 | 0 | 0 | 0 | 0 | 0 | 0.000 | 20,000 | 0.151 |
| Giulia Pusterla | Acting Statutory Auditor | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Giovanni Cucchiani | Alternate Statutory Auditor | Owned | 14,240 | 0.0122 | 1,000 | 0.008 | 0 | 0 | 0 | 0 | 14,240 | 0.0122 | 1,000 | 0.008 |
| | | Registered to spouse | 6,800 | 0.00581 | 0 | 0.000 | 0 | 0 | 0 | 0 | 6,800 | 0.00581 | 0 | 0.000 |
| Elena Negonda | Alternate Statutory Auditor | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |
| Paolo Pasqui | Alternate Statutory Auditor | | 0 | 0.000 | 0 | 0.000 | 2,000 | 0 | 0 | 0 | 2,000 | 0.002 | 0 | 0.000 |
| Ippolito Fabris | Vice Direttore Affari Generali (appointed by the BoD from 17 March 2014) | | 0 | 0.000 | 0 | 0.000 | 0 | 0 | 0 | 0 | 0 | 0.000 | 0 | 0.000 |

## 9.2 - INVESTMENTS IN SUBSIDIARIES HELD BY MEMBERS OF THE BOARDS OF DIRECTORS AND STATUTORY AUDITORS, BY THE GENERAL MANAGER AND BY THE DEPUTY GENERAL MANAGER HOLDING OFFICE AT THE YEAR END

At 31 December 2015 no equity investments were held in subsidiaries by members of the Boards of directors and statutory auditors, by the General Manager and by the Deputy General Manager holding office at the year end and neither have there been any movements during the year.

## 9.3 - TREASURY SHARES

At 31 December 2015, as was the case at the previous year end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and neither have there been any movements during the year.

## 9.4 - TRANSACTIONS BETWEEN BANCO DI DESIO E DELLA BRIANZA S.P.A. AND THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

Set out below is a summary of balances at 31 December 2013 and transactions in the year then ended with the Bank's parent company and with its subsidiaries or companies subject to significant influence, by counterparty and by nature.

**Table no. 16 - TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2015**

*Amounts in thousands of Euro*

| | Assets | Liabilities | Guarantees/ commitments | Income | Expenses |
|---|---|---|---|---|---|
| ***Parent Company*** | | | | | |
| Brianza Unione di Luigi Gavazzi & C. S.a.p.A. | 0 | 1,110 | 0 | 8 | 5 |
| ***Subsidiaries*** | | | | | |
| Banca Popolare di Spoleto S.p.A. | 225,406 | 72,862 | 6,555 | 5,351 | 3,191 |
| Credito Privato Commerciale S.A. in liquidation | 5 | 8,354 | 0 | 13 | 0 |
| Rovere Societé de Gestion S.A. | 508 | 0 | 0 | 2,788 | 0 |
| FIDES S.p.A. | 380,268 | 99 | 0 | 16,411 | 12 |
| ***Associates subject to significant influence*** | | | | | |
| Chiara Assicurazioni S.p.A. | 144 | 434 | 0 | 2,738 | 273 |
| Istifid S.p.A. | 7 | 2,316 | 0 | 15 | 85 |
| **Transactions by company** | **606,338** | **85,175** | **6,555** | **27,324** | **3,566** |
| ***Breakdown of transactions by type*** | | | | | |
| Financial | 603,265 | 84,109 | 0 | 17,996 | 437 |
| Trade | 653 | 52 | 6,555 | 4,379 | 89 |
| Lease / management of assets | 0 | 296 | 0 | 0 | 414 |
| Supply of services | 2,270 | 0 | 0 | 4,545 | 84 |
| Other | 150 | 718 | 0 | 404 | 2,542 |
| **Transactions by type** | **606,338** | **85,175** | **6,555** | **27,324** | **3,566** |

Note that all the transactions disclosed in the above table have been entered into, where it has been possible to make a comparison, by applying market conditions and rates.

In compliance with art. 37 paragraph 2 of Consob's Market Regulations (Resolution 16191 of 29 October 2007), it is hereby disclosed that Brianza Unione di Luigi Gavazzi & C. S.a.p.A., the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries and neither does it do so under banking legislation nor under civil law.

For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

## 9.5 - 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 and remain among the highest with respect to 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"

## 9.6 - TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED PERSONS

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2014 are disclosed in Part H of the explanatory notes.

## 9.7 - INFORMATION ON INCENTIVE PLANS

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving free allocation of ordinary shares in favour of Management of the Banco Desio Group, approved by the Ordinary Shareholders' Meeting of 29 November 2011, note that an assessment has been carried out on the conditions for the effective allocation of securities relating to the 3rd and last grant cycle for the three-year performance period 2013-2015. With consolidated results for 2015, three-year gate targets of liquidity and assets have been positively achieved, and the ratio between the cumulative Consolidated Adjusted Result and the related Budget stood at the level required, pursuant to the Regulations of the Plan, the conditions for the bonus increase in capital are met as well as the delivery to 27 beneficiaries of a total of 89,823 Banco di Desio's ordinary shares and the recognition of an amount equivalent to 24,648 ordinary shares in favour of the Chief Executive Officer. Given that the direct and indirect costs and management complexity of this operation are related to a small increase in capital and considering also that the Regulations of the Plan do not provide for beneficiaries being subject to lock-up restrictions (so they could sell the benefit without any further delay), we thought it preferable to extend the payment of an equivalent amount to all beneficiaries. As we said, this approach is envisaged for executive directors in the Regulations of the Plan. With the execution of this substitute payment, the Stock Grant 2011-2013 Plan has to be considered in all respects concluded.

It should also be noted that the incentive scheme, under which the Plan operated, was subject to review by Board resolution of 19 December 2013, providing for a comprehensive review of remuneration policies; in this regard, reference should be made to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CBA.

## 9.8 - REPORT ON THE ADOPTION OF THE CODE OF CONDUCT FOR LISTED COMPANIES

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

## 9.9 - RESEARCH AND DEVELOPMENT ACTIVITIES

In its capacity as Parent Company, the Bank, as described in paragraph 7.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

## 9.10 - OPT-OUT FROM OBLIGATION TO PUBLISH INFORMATION DOCUMENTS FOR EXTRAORDINARY OPERATIONS PURSUANT TO CONSOB REGULATIONS

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

# 10 - OUTLOOK FOR THE REST OF 2016 AND PRINCIPAL RISKS AND UNCERTAINTIES

Based on the final results for 2015 and on the latest performance forecasts, we expect for the current year to achieve gross ordinary operating results well in line with those of the year just ended. As regards the principal risks and uncertainties, note that this report and, more generally, the financial statements at 31 December 2015 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in the world economy and financial markets with the principal risks that they involve, while the controls over the Bank's operations and the various types of risk are described in detail in Part E of the explanatory notes – Information on risks and related hedging policy.

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

# 11 - MOTION FOR APPROVAL OF FINANCIAL STATEMENTS AND ALLOCATION OF NET PROFIT

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2015, which report a net profit for the year of Euro 37,444,929.39 as shown by the income statement.

Considering:

– the provisions of art. 31 of the Articles of Association;
– the Recommendation of the European Central Bank dated 17 December 2015, which requires:
  a) the adoption of a dividend distribution policy that still makes it possible, after each distribution, for the bank to comply with its minimum capital requirements;
  b) for institutions like Banco Desio that on 31 December 2015 have already reached the fully loaded ratios required on full implementation of EU Regulation 575/2013, the distribution of dividends on an prudent basis, so as to continue to meet all of the minimum requirements, also in the event of poorer economic and financial conditions;
– the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

| | | |
|---|---|---|
| - 10% to be allocated to the legal reserve | Euro | 3,744,493.00 |
| - 10% to be allocated to the statutory reserve | Euro | 3,744,493.00 |
| - to the shareholders: | | |
| Euro 0.0846 for each of the 117,000,000 ordinary shares | Euro | 9,898,200.00 |
| Euro 0.1016 for each of the 13,202,000 savings shares | Euro | 1,341,323.20 |
| - to the charity reserve | Euro | 150,000.00 |
| - further allocation to the statutory reserve | Euro | 18,566,420.19 |
| **Total net profit** | **Euro** | **37,444,929.39** |

Desio, 11 February 2016

The Board of Director

# Financial statements

Banco Desio

Gruppo Banco Desio

# BALANCE SHEET

## ASSETS

| Asset captions | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | Amount | % |
| 10. Cash and cash equivalents | 27,408,982 | 33,788,451 | -6,379,469 | -18.90% |
| 20. Financial assets held for trading | 3,065,058 | 3,572,302 | -507,244 | -14.20% |
| 40. Financial assets available for sale | 1,531,640,815 | 1,354,097,087 | 177,543,728 | 13.10% |
| 60. Due from banks | 447,668,762 | 315,883,630 | 131,785,132 | 41.70% |
| 70. Loans to customers | 5,977,833,324 | 6,076,574,340 | -98,741,016 | -1.60% |
| 80. Hedging derivatives | 1,859,493 | 2,783,566 | -924,073 | -33.20% |
| 100. Equity investments | 317,808,556 | 214,379,098 | 103,429,458 | 48.20% |
| 110. Property, plant and equipment | 137,570,986 | 137,803,245 | -232,259 | -0.20% |
| 120. Intangible assets | 3,571,866 | 3,500,287 | 71,579 | 2.00% |
| of which: | | | | |
| - goodwill | 1,728,505 | 1,728,505 | | |
| 130. Tax assets | 141,707,165 | 110,650,361 | 31,056,804 | 28.10% |
| a) current | 20,601,033 | | 20,601,033 | n.s. |
| b) deferred | 121,106,132 | 110,650,361 | 10,455,771 | 9.40% |
| of which Law 214/2011 | 107,643,325 | 100,578,539 | 7,064,786 | 7.00% |
| 140. Non-current assets and disposal groups held for sale | 1,403,094 | 1,117,527,763 | -1,116,124,669 | -99.90% |
| 150. Other assets | 103,186,799 | 120,473,210 | -17,286,411 | -14.30% |
| **Total assets** | **8,694,724,900** | **9,491,033,340** | **-796,308,440** | **-8.40%** |

## LIABILITIES

| Liabilities and shareholders' equity | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | Amount | % |
| 10. Due to banks | 810,832,626 | 790,090,154 | 20,742,472 | 2.60% |
| 20. Due to customers | 5,155,059,335 | 4,709,455,145 | 445,604,190 | 9.50% |
| 30. Debt securities in issue | 1,625,686,890 | 1,955,020,588 | -329,333,698 | -16.80% |
| 40. Financial liabilities held for trading | 2,021,751 | 2,083,973 | -62,222 | -3.00% |
| 50. Financial liabilities designated at fair value through profit and loss | 22,828,154 | 23,626,180 | -798,026 | -3.40% |
| 60. Hedging derivatives | 19,924,185 | | 19,924,185 | n.s. |
| 80. Tax liabilities | 12,351,817 | 14,712,929 | -2,361,112 | -16.00% |
| a) current | | 1,581,166 | -1,581,166 | -100.00% |
| b) deferred | 12,351,817 | 13,131,763 | -779,946 | -5.90% |
| 90. Liabilities associated with assets held for sale | | 993,775,308 | -993,775,308 | -100.00% |
| 100. Other liabilities | 140,937,562 | 128,435,134 | 12,502,428 | 9.70% |
| 110. Provision for termination indemnities | 21,110,986 | 24,341,922 | -3,230,936 | -13.30% |
| 120. Provisions for risks and charges: | 31,925,871 | 31,721,568 | 204,303 | 0.60% |
| b) other provisions | 31,925,871 | 31,721,568 | 204,303 | 0.60% |
| 130. Valuation reserves | 22,623,132 | 24,510,955 | -1,887,823 | -7.70% |
| 160. Reserves | 708,127,534 | 676,423,351 | 31,704,183 | 4.70% |
| 170. Share premium reserve | 16,145,088 | 16,145,088 | | |
| 180. Share capital | 67,705,040 | 67,705,040 | | |
| 200. Net profit (loss) for the period (+/-) | 37,444,929 | 32,986,005 | 4,458,924 | 13.50% |
| **Total liabilities and shareholders' equity** | **8,694,724,900** | **9,491,033,340** | **-796,308,440** | **-8.40%** |

## INCOME STATEMENT

| Captions | 31.12.2015 | 31.12.2014 | Change | |
|---|---|---|---|---|
| | | | Amount | % |
| 10. Interest and similar income | 227,265,417 | 250,152,960 | -22,887,543 | -9.10% |
| 20. Interest and similar expense | -62,962,453 | -90,294,546 | 27,332,093 | -30.30% |
| **30. Net interest income** | **164,302,964** | **159,858,414** | **4,444,550** | **2.80%** |
| 40. Commission income | 116,094,579 | 103,390,489 | 12,704,090 | 12.30% |
| 50. Commission expense | -5,096,623 | -4,923,467 | -173,156 | 3.50% |
| **60. Net commission income** | **110,997,956** | **98,467,022** | **12,530,934** | **12.70%** |
| 70. Dividends and similar income | 4,133,497 | 3,174,189 | 959,308 | 30.20% |
| 80. Net trading income | 3,284,656 | 2,038,469 | 1,246,187 | 61.10% |
| 90. Net hedging gains (losses) | 168,527 | -1,041,084 | 1,209,611 | n.s. |
| 100. Gains (losses) on disposal or repurchase of: | 26,450,943 | 60,023,377 | -33,572,434 | -55.90% |
| a) loans | -448,649 | -1,633,603 | 1,184,954 | -72.50% |
| b) financial assets available for sale | 28,645,359 | 51,249,864 | -22,604,505 | -44.10% |
| c) financial assets held to maturity | | 12,428,166 | -12,428,166 | -100.00% |
| d) financial liabilities | -1,745,767 | -2,021,050 | 275,283 | -13.60% |
| 110. Net results on financial assets and liabilities designated at fair value | -221,377 | 50,712 | -272,089 | n.s. |
| **120. Net interest and other banking income** | **309,117,166** | **322,571,099** | **-13,453,933** | **-4.20%** |
| 130. Net impairment adjustments to: | -92,943,916 | -125,082,783 | 32,138,867 | -25.70% |
| a) loans | -92,531,935 | -125,628,720 | 33,096,785 | -26.30% |
| d) other financial assets | -411,981 | 545,937 | -957,918 | n.s. |
| **140. Net profit from financial activities** | **216,173,250** | **197,488,316** | **18,684,934** | **9.50%** |
| 150. Administrative costs: | -206,324,826 | -188,604,199 | -17,720,627 | 9.40% |
| a) payroll costs | -122,252,839 | -115,178,446 | -7,074,393 | 6.10% |
| b) other administrative costs | -84,071,987 | -73,425,753 | -10,646,234 | 14.50% |
| 160. Net provisions for risks and charges | -3,651,823 | -2,412,645 | -1,239,178 | 51.40% |
| 170. Net adjustments to property, plant and equipment | -5,036,976 | -5,054,199 | 17,223 | -0.30% |
| 180. Net adjustments to intangible assets | -1,133,320 | -713,705 | -419,615 | 58.80% |
| 190. Other operating charges/income | 38,352,233 | 27,363,568 | 10,988,665 | 40.20% |
| **200. Operating costs** | **-177,794,712** | **-169,421,180** | **-8,373,532** | **4.90%** |
| 210. Profit (loss) from equity investments | 7,857,489 | 2,584,528 | 5,272,961 | 204.00% |
| 240. Gains (losses) on disposal of investments | 1,980 | 216,889 | -214,909 | -99.10% |
| **250. Profit (loss) from current operations before tax** | **46,238,007** | **30,868,553** | **15,369,454** | **49.80%** |
| 260. Income taxes on current operations | -8,793,078 | -12,040,930 | 3,247,852 | -27.00% |
| **270. Profit (loss) from current operations after tax** | **37,444,929** | **18,827,623** | **18,617,306** | **98.90%** |
| 280. Profit (loss) after tax on non-current assets held for sale | | 14,158,382 | -14,158,382 | -100.00% |
| **290. Net profit (loss) for the period** | **37,444,929** | **32,986,005** | **4,458,924** | **13.50%** |

## STATEMENT OF COMPREHENSIVE INCOME

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **10. Net profit (loss) for the period** | **37,444,929** | **32,986,005** |
| **Other elements of income, net of income taxes without reversal to income statement** | | |
| 20. Property, plant and equipment | - | - |
| 30. Intangible assets | - | - |
| 40.Defined-benefit pension plans | 673,378 | -1,876,443 |
| 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 | - | 732,499 |
| 90. Cash-flow hedges | 62,843 | - |
| 100. Financial assets available for sale | -2,624,004 | 874,896 |
| 110. Non-current assets and disposal groups held for sale | - | - |
| 120. Portion of the valuation reserves of the equity investments carried at equity | | - |
| **130. Total other elements of income (net of income taxes)** | **-1,887,823** | **-269,048** |
| **140. Total comprehensive income (Captions 10+130)** | **35,557,106** | **32,716,957** |

## STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2015

| | Balance at 31.12.2014 | Changes in opening balances | Balance at 01.01.2015 | Allocation of prior year results | | Changes during the year | | | | | | | | | Shareholders' equity at 31.12.2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 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 | Comprehensive income at 31.12.2015 | |
| Share capital: | | | | | | | | | | | | | | |
| a) ordinary shares | 60,840,000 | | 60,840,000 | | | | | | | | | | | 60,840,000 |
| b) other shares | 6,865,040 | | 6,865,040 | | | | | | | | | | | 6,865,040 |
| Share premium reserve | 16,145,088 | | 16,145,088 | | | | | | | | | | | 16,145,088 |
| Reserves: | | | | | | | | | | | | | | - |
| a) from profits | 675,107,927 | | 675,107,927 | 22,982,444 | | 89,276,533 | | | | | | 1,109,510 | | 708,127,534 |
| b) other | 1,315,424 | | 1,315,424 | | | - | | | | | | -1,315,424 | | - |
| Valuation reserves: | 24,510,955 | | 24,510,955 | | | | | | | | | | -1,887,823 | 22,623,132 |
| Equity instruments | | | | | | | | | | | | | | |
| Treasury shares | - | | - | | | | | | | | | | | |
| Net profit (loss) for the period | 32,986,005 | | 32,986,005 | -22,982,440 | -10,003,561 | | | | | | | | 37,444,929 | 37,444,929 |
| **Shareholders' equity** | **817,770,439** | | **817,770,439** | | **-10,003,561** | **8,927,653** | | | | | | **-205,914** | **35,557,106** | **852,045,723** |

Changes in reserves:
the amount of Euro 8,927,653 reflects the accounting treatment according to OPI 1 of the extraordinary transfer of the business unit by the Parent Company to Banca Popolare di Spoleto and the sale of the Milan branch by Banca Popolare di Spoleto to Banco di Desio e della Brianza with recognition in equity of the differences of Euro 9,227,499 between the value of net assets of the business unit and the economic value of the transaction and, of Euro -299,846, between the values of the net assets of the Milan branch and the selling price.

## STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2014

| | | | | Allocation of prior year results | | Changes during the year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Transactions on shareholders' equity | | | | | | | | |
| | Balance at 31.12.2013 | Changes in opening balances | Balance at 01.01.2014 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on treasury shares | Stock options | Comprehensive income at 31.12.2014 | Shareholders' equity at 31.12.2014 |
| Share capital: | | | | | | | | | | | | | | |
| a) ordinary shares | 60,840,000 | | 60,840,000 | | | | | | | | | | | 60,840,000 |
| b) other shares | 6,865,040 | | 6,865,040 | | | | | | | | | | | 6,865,040 |
| Share premium reserve | 16,145,088 | | 16,145,088 | | | | | | | | | | | 16,145,088 |
| Reserves: | | | | | | | | | | | | | | |
| a) from profits | 662,365,539 | | 662,365,539 | 6,589,419 | | 6,152,969 | | | | | | | | 675,107,927 |
| b) other | 908,910 | | 908,910 | | | | | | | | | 406,514 | | 1,315,424 |
| Valuation reserves: | 24,878,836 | | 24,878,836 | | | -98,833 | | | | | | | -269,048 | 24,510,955 |
| Equity instruments | | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | | | | | | | |
| Net profit (loss) for the period | 9,573,772 | | 9,573,772 | -6,589,419 | -2,984,353 | | | | | | | | 32,986,005 | 32,986,005 |
| **Shareholders' equity** | **781,577,185** | | **781,577,185** | | **-2,984,353** | **6,054,136** | | | | | | **406,514** | **32,716,957** | **817,770,439** |

Changes in reserves:
The column shows the changes that arose during the year due to the merger of Banco Desio Lazio S.p.A. with Banco di Desio e della Brianza with effect for legal purposes from 1 October 2014 and from 1 January 2014 for accounting and tax purposes.

## CASH FLOW STATEMENT

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. OPERATING ACTIVITIES** | | |
| **1. Cash generated from operations** | **143,421,410** | **174,020,053** |
| - interest received (+) | 224,406,675 | 247,073,659 |
| - interest paid (-) | (63,124,744) | -89,773,595 |
| - dividends and similar income (+) | | |
| - net commission income (+/-) | 111,624,604 | 99,249,433 |
| - payroll costs (-) | (122,059,733) | -114,760,927 |
| - other costs (-) | (68,378,811) | -57,263,027 |
| - other revenues (+) | 69,746,497 | 87,377,058 |
| - taxation (-) | (8,793,078) | -12,040,930 |
| - costs/revenues for disposal groups, net of tax effect (+/-) | | 14,158,382 |
| **2. Cash generated (absorbed) by financial assets** | **-196,868,593** | **-426,676,662** |
| - financial assets held for trading | 414,592 | 1,184,739 |
| - financial assets designated at fair value through profit and loss | | |
| - financial assets available for sale | -178,030,907 | 72,761,504 |
| - loans to customers | 67,100,145 | -383,402,033 |
| - due from banks: on demand | 113,475,727 | -130,228,076 |
| - due from banks: other receivables | -261,803,971 | 35,222,591 |
| - other assets | 61,975,821 | -22,215,387 |
| **3. Cash generated (absorbed) by financial liabilities** | **74,378,640** | **223,529,337** |
| - due to banks: on demand | -43,014,017 | 33,078,785 |
| - due to banks: other payables | 9,613,180 | 325,748,007 |
| - due to customers | 502,515,335 | 175,521,235 |
| - debt securities in issue | -335,082,984 | -282,543,259 |
| - financial liabilities held for trading | -420,651 | 1,449,083 |
| - financial liabilities designated at fair value through profit and loss | -658,801 | -14,990,923 |
| - other liabilities | -58,573,422 | -14,733,591 |
| **Net cash generated/absorbed by operating activities (A)** | **20,931,457** | **-29,127,272** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash generated by** | **4,232,188** | **192,526,095** |
| - sale of equity investments | | 4,416,424 |
| - dividends collected on equity investments | 4,133,497 | 3,174,188 |
| - sale/redemption of financial assets held to maturity | | 181,567,955 |
| - sale of property, plant and equipment | 98,691 | 3,367,528 |
| - sale of intangible assets | | |
| - sale of businesses | | |
| **2. Cash absorbed by** | **-25,006,210** | **-154,686,437** |
| - purchase of equity investments | -19,227,492 | -141,826,868 |
| - purchase of financial assets held to maturity | | |
| - purchase of property, plant and equipment | (4,620,734) | -11,596,479 |
| - purchase of intangible assets | -1,157,984 | -1,263,090 |
| - purchase of businesses | | |
| **Net cash generated/absorbed by investing activities (B)** | **-20,774,022** | **37,839,658** |
| **C. FINANCING ACTIVITIES** | | |
| - issue/purchase of treasury shares | | |
| - issue/purchase of equity instruments | | |
| - dividends distributed and other allocations | -10,003,561 | -2,984,353 |
| **Net cash generated/absorbed by financing activities (C)** | **-10,003,561** | **-2,984,353** |
| **NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)** | **-9,846,126** | **5,728,033** |

## RECONCILIATION

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Cash and cash equivalents at beginning of period** | **33,788,451** | **24,322,157** |
| Business combinations | | 5,484,715 |
| Reclassification of "Non-current assets and disposal groups held for sale" (IFRS5)" | | -3,898,566 |
| Net increase (decrease) in cash and cash equivalents | -9,846,126 | 5,728,033 |
| Cash and cash equivalents: effect of changes in exchange rates | 3,466,657 | 2,152,111 |
| **Cash and cash equivalents at end of period** | **27,408,982** | **33,788,451** |

# Explanatory notes

# PART A - ACCOUNTING POLICIES

## A.1 GENERAL INFORMATION

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

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements of Banco di Desio e della Brianza are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2015.

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 Banco di Desio e della Brianza. The interpretation deals with the accounting of levies falling within the scope of *IAS 37 - Provisions, contingent liabilities and contingent assets, and those levies whose timing and amount are uncertain and do not meet IAS 37.*

### Section 2 - Basis of preparation

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

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

The financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the year.

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence. The accounting policies are consistent with those used for the preparation of the financial statements of the previous year.

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

### Section 3 - Subsequent events

Please refer to the Report on Operations.

### Section 4 - Other aspects

***IFRS 9 - Financial instruments***

On 24 July 2014, the IASB issued *IFRS 9 - Financial Instruments*, thus completing the reform of IAS 39 that was divided into three phases: "Classification and measurement", "Impairment" and "Hedge accounting". The new standard has to be applied to financial statements from 1 January 2018 onwards; however, this principle still has to be approved by the European Commission. The European Financial Reporting Advisory Group (EFRAG) has already issued a favourable opinion dated 15 September 2015.

The standard introduces new requirements for the classification and measurement of financial assets and liabilities. Moreover, with reference to the impairment model, the new standard requires that the estimate of loan losses is based on the model of "expected losses" (as opposed to "incurred losses") using information that has support and available without unreasonable charges or efforts that include historical, current and future data. The principle provides, *in particular*, that:

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

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies.

With reference to the first application of the new accounting standards, the Bank is currently carrying out an analysis of the interventions to be made on the procedures and IT /management systems with the assistance of the provider of outsourced IT procedures (Cedacri): at present, and until the Bank has completed the above analysis, it is not possible to give a reasonable estimate of the impact that this will have. In particular, this project is focusing on defining the scope of activities to which the new standard will apply, the identification and association of the correct bucket to financial instruments and the calculation of the discounted long-term expected loss (known as the "lifetime expected credit loss") for the instruments covered by bucket no. 2, in order to define the appropriate changes to be made to Cedacri's current IT and management architecture.

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

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

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

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

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

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

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

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

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

The contributions were communicated by the competent authorities (the Bank of Italy as the resolution authority and the FITD as the authority for the protection of guaranteed deposits) in November): charges relating to the ordinary and extraordinary contributions made by Banco di Desio e della Brianza have been recognised in the income statement under "150 b) Other administrative costs" in accordance with the instructions contained in the Bank of Italy's communication of 19 January 2016.

***Contribution to the solidarity fund***

The 2016 Stability Law provides for the establishment of a solidarity fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara.

The Solidarity Fund is financed on the basis of the financial needs related to the services performed by the Interbank Deposit Protection Fund (IDPF) up to a maximum of Euro 100 million. Pending definition of the organisational and operational aspects of the system with the enactment of special ministerial decrees, the Bank considered the probability of enforcement to be high ("more likely than not") and has therefore made a risk provision for a probable liability in compliance with IAS 37 - Provisions, contingent liabilities and contingent assets.

***Comparability of financial statements***

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted. However, in the case of business combinations (such as mergers, transfers or acquisitions of business units), the comparative figures for the previous year in the financial statements are those shown in the previous financial statements. So for the purposes of comparability of the figures in the balance sheet and income statement, it must be taken into consideration that from 1 April 2015, the Bank transferred to subsidiary Banca Popolare di Spoleto a business unit consisting of 32 branches in Tuscany and Lazio (see Part G of these Notes for details).

Please note that 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 31 December 2015 for the assets and liabilities of Rovere S.A. and Istifid S.p.A.

***Domestic tax group election***

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

***Audit***

These financial statements have been audited by Deloitte & Touche S.p.A., pursuant to D.Lgs. 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

## A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

### Financial assets held for trading

***Recognition***

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

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

***Classification***

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

***Measurement***

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

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

**Derecognition**

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

***Recognition of items affecting the income statement***

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

### Financial assets available for sale

***Recognition***

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

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

***Classification***

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

This caption thus includes, in addition to bonds that are not held for trading and which are not classified as Assets held to maturity, equity interests not held for trading and which do not qualify as controlling interests or as a placement as well as mutual fund units.

Financial assets can be transferred from "available for sale" to "held to maturity", but only in the following circumstances:

- a change in the intentions or ability of detention,
- 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.

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

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

## Loans and receivables

***Recognition***

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

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

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

***Classification***

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

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

They also include finance lease receivables and repurchase agreements with obligation to resale.

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

***Measurement***

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

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

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

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

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

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

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

The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done by applying the criteria laid down in the Lending Policies, taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.

Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality.

The expected loss is an estimation of the latent loss at the reference date.

Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.

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

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

The *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 non-performing loans is recognised in the income statement under write-backs.

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

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

## Hedging transactions

***Recognition***

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

The recognition of hedging transactions assumes:

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

***Classification***

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

The type of hedge used may be:

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

***Measurement***

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

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

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

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

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

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

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

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

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

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

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

***Derecognition***

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.

If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

## Equity investments

***Recognition***

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

***Classification***

This item includes investments in subsidiaries and associates, as defined in IFRS 10 and IAS 28. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

***Measurement***

Subsequent to initial recognition, investments in subsidiaries and associates are measured at cost.

At each balance sheet date, tests are carried out to see if there is objective evidence that the investment has suffered an impairment loss.

Impairment occurs when the carrying amount of the asset exceeds its recoverable value, this being the greater of the net selling price (i.e. the amount obtainable from the sale of the asset in a hypothetical transaction between independent parties, net of disposal costs) and its value in use (i.e. the present value of the cash flows expected to be derived from continuing use and disposal of the asset at the end of its useful life).

On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.

As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).

Any impairment write-downs are charged to the income statement.

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

Equity investments in foreign currency subject to fair value hedges for exchange rate risk 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.

***Derecognition***

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

***Recognition of items affecting the income statement***

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

## Property, plant and equipment

***Recognition***

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

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

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

In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method.

Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

***Classification***

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

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

***Measurement***

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

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

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

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

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

***Derecognition***

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

## Intangible assets

***Recognition***

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

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

***Classification***

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

Leasehold improvements are recorded in other assets.

***Measurement***

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

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

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose. The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.

On completion of impairment testing, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.

As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (*trigger event*).

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

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

***Derecognition***

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

***Recognition of items affecting the income statement***

Amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to intangible assets.

Adjustments to leasehold improvements are recognised in the income statement under other operating charges.

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

***Recognition***

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

***Classification***

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

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

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

***Measurement and recognition of items affecting the income statement***

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

**Derecognition**

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

## Current and deferred taxation

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

***Measurement***

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

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

***Recognition of items affecting the income statement***

Provisions are charged to the income statement.

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

## Debts and debt securities in issue

***Recognition***

Recognition of these financial liabilities takes place on the date of the contract, which normally coincides with the receipt of the amounts collected or on issue of the debt securities. The first recognition is at fair value of the liability, usually equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual operation or issue.

***Classification***

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

***Measurement and recognition of items affecting the income statement***

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

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

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

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

Securities issued are shown net of any repurchases.

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

***Derecognition***

Financial liabilities are derecognised on disposal, expiration or termination.

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

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

## Financial liabilities held for trading

***Recognition and classification***

Liabilities held for trading are recorded at fair value.

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

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

***Measurement and recognition of items affecting the income statement***

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

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

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

***Derecognition***

Financial liabilities are derecognised on disposal, expiration or termination.

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

***Recognition***

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

***Classification***

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

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

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

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

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

***Measurement and recognition of items affecting the income statement***

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

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

***Derecognition***

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

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

## Currency transactions

***Recognition***

Currency transactions are recorded in accordance with IAS 21 - *Effects of Changes in Foreign Exchange Rates* at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

***Measurement***

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

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

***Recognition of items affecting the income statement***

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

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

- interests expenses are recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interests;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at *fair value (fair value option);*
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.
- default interests, which may be provided by contract, are recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commissions income from services are 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 interests;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the *fair value* of the instrument, are booked to the income statement on recognition of the transaction, if the *fair value* can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (level 1 and level 2). If these values cannot easily be determined or have a reduced level of liquidity (level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the *fair value* is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Expenses are recognised in the income statement in the periods when the related revenues are booked. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures.

Costs that cannot be associated with income are booked immediately to the income statement.

***Finance leases***

Assets leased to others under finance leases are shown as receivables, for an amount equal to the net investment of the lease.

The recognition of financial income reflects a constant periodic rate of return.

***Accounting treatment of the extraordinary intragroup transactions in the financial statements***

As regards the extraordinary transactions involving (i) the transfer of the business unit consisting of branches of Banco di Desio e della Brianza S.p.A. to Banca Popolare di Spoleto and (ii) the sale of the Milan branch of Banca Popolare di Spoleto to Banco di Desio e della Brianza S.p.A., which took place on 1 April 2015, already amply discussed following the resolutions taken by the Boards of Directors of the two banks on 18 December 2014, considering the fact that they involve entities controlled by a common shareholder within the framework of the project for the rationalisation of the Group's network, they are not specifically regulated by IAS/IFRS.

For the accounting treatment of the two extraordinary transactions which involved entities controlled by a common shareholder (operations that are not specifically regulated by IAS/IFRS), reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of *business combinations of entities under common control* in the financial statements and consolidated financial statements".

In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

Details of business combination between companies under control of the same shareholder are disclosed in Part G of the explanatory notes.

## A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

The Bank has not made any portfolio transfers during the reference period of this report.

## A.4 INFORMATION ON FAIR VALUE

### Qualitative information

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

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

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

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

The *fair value* hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (*Level 1* inputs) and the lowest priority to unobservable inputs (*Level 2* and *3 inputs*). The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure *fair value*.

A *fair value* measurement developed using a present value technique might be categorised within *Level 2* or *Level 3*, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

***Fair value measurement with use of level 1 inputs***

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

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

The fundamental elements are the following:

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

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

### A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

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

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

– prices quoted for similar assets or liabilities in active markets;
– prices quoted for identical or similar assets or liabilities in markets that are not active;
– inputs other than quoted prices that are observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals
    - implied volatilities;
- credit spreads

– inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

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

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

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

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

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

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

## A.4.2 Process and sensitivity of valuations

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

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

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

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

## A.4.3 Fair value hierarchy

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

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

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

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

## A.4.4 Other information

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

## Quantitative information

## A.4.5 Fair value hierarchy

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

| Financial assets/liabilities designated at fair value | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 11 | 995 | 2,059 | 36 | 1,400 | 2,136 |
| 2. Financial assets designated at fair value through profit and loss | | | | | | |
| 3. Financial assets available for sale | 1,362,824 | 149,638 | 19,178 | 1,265,147 | 74,920 | 14,030 |
| 4. Hedging derivatives | | 1,859 | | | 2,784 | |
| 5. Property, plant and equipment | | | | | | |
| 6. Intangible assets | | | | | | |
| **Total** | **1,362,835** | **152,492** | **21,237** | **1,265,183** | **79,104** | **16,166** |
| 1. Financial liabilities held for trading | | | 2,022 | | | 2,084 |
| 2. Financial liabilities designated at fair value through profit and loss | | 22,828 | | | 23,626 | |
| 3. Hedging derivatives | | 19,924 | | | | |
| **Total** | | **42,752** | **2,022** | | **23,626** | **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 (1.38% at 31 December 2015).

These investments consist of Euro 9,004 thousand of non-controlling interests classified as "Financial assets available for sale".

At 31 December 2015, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

| | Financial assets held for trading | Financial assets designated at fair value through profit and loss | Financial assets available for sale | Hedging derivatives | Property, plant and equipment | Intangible assets |
|---|---|---|---|---|---|---|
| **1. Opening balance** | **2,136** | | **14,030** | | | |
| **2. Increases** | | | **6,177** | | | |
| 2.1. Purchases | | | 5,400 | | | |
| 2.2. Profits posted to: | | | | | | |
| 2.2.1. Income statement | | | | | | |
| *of which: capital gains* | *2,059* | | | | | |
| 2.2.2. Shareholders' equity | | | | | | |
| 2.3. Transfers from other levels | | | | | | |
| 2.4. Other increases | | | 777 | | | |
| of which: business combinations | | | | | | |
| **3. Decreases** | | | **1,029** | | | |
| 3.1. Sales | | | 811 | | | |
| 3.2. Redemptions | | | | | | |
| 3.3. Losses posted to: | | | | | | |
| 3.3.1. Income statement | | | | | | |
| *of which: capital losses* | *2,136* | | | | | |
| 3.3.2. Shareholders' equity | | | 98 | | | |
| 3.4. Transfers to other levels | | | | | | |
| 3.5. Other decreases | | | 120 | | | |
| of which: business combinations | | | | | | |
| **4. Closing balance** | **2,059** | | **19,178** | | | |

### A.4.5.3 Annual changes in financial assets measured at fair value on a recurring basis (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** | | | |
| 2.1. Issues | | | |
| 2.2. Losses posted to: | | | |
| 2.2.1. Income statement | | | |
| *of which: capital losses* | *2,022* | | |
| 2.2.2. Shareholders' equity | | | |
| 2.3. Transfers from other levels | | | |
| 2.4. Other increases | | | |
| **3. Decreases** | | | |
| 3.1. Sales | | | |
| 3.2. Redemptions | | | |
| 3.3. Losses posted to: | | | |
| 3.3.1. Income statement | | | |
| *of which: capital gains* | *2,084* | | |
| 3.3.2. Shareholders' equity | | | |
| 3.4. Transfers to other levels | | | |
| 3.5. Other decreases | | | |
| **4. Closing balance** | **-2,022** | | |

### 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 | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets held to maturity | | | | | | | | |
| 2. Due from banks | 447,669 | | | 447,669 | 315,884 | | | 315,884 |
| 3. Loans to customers | 5,977,834 | | 2,989,337 | 3,231,456 | 6,076,574 | | 3,512,827 | 2,819,325 |
| 4. Investment property | 1,080 | | | 932 | 1,095 | | | 943 |
| 5. Non-current assets and disposal groups held for sale | 1,403 | | | 1,403 | 1,117,528 | | | |
| **Total** | **6,427,986** | | **2,989,337** | **3,681,460** | **7,511,081** | | **3,512,827** | **3,136,152** |
| 1. Due to banks | 810,833 | | | 810,833 | 790,090 | | | 790,090 |
| 2. Due to customers | 5,155,059 | | | 5,155,059 | 4,709,455 | | | 4,709,455 |
| 3. Debt securities in issue | 1,625,687 | | 1,571,195 | 52,775 | 1,955,021 | | 1,837,178 | 115,236 |
| 4. Liabilities associated with assets held for sale | | | | | 993,775 | | | |
| **Total** | **7,591,579** | | **1,571,195** | **6,018,667** | **8,448,341** | | **1,837,178** | **5,614,781** |

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

## A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

IAS 39 requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value.

If a difference arises (so-called "day one profit/loss") between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

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

# PART B - INFORMATION ON THE BALANCE SHEET

## ASSETS

## SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

### 1.1 Cash and cash equivalents: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) Cash | 27,409 | 33,788 |
| b) Demand deposits with central banks | | |
| **Total** | **27,409** | **33,788** |

## SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

### 2.1 Financial assets held for trading: breakdown

| Captions/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | | | | | | |
| *1.1 Structured securities* | | | | | | |
| *1.2 Other debt securities* | | | | | | |
| 2. Equity instruments | | | | | | |
| 3. UCITS units | | | | | | |
| 4. Loans | | | | | | |
| *4.1 Repurchase agreements* | | | | | | |
| *4.2 Other* | | | | | | |
| **Total A** | | | | | | |
| **B. Derivatives:** | | | | | | |
| 1. Financial derivatives: | 11 | 995 | 2,059 | 36 | 1,339 | 2,136 |
| *1.1 for trading* | *11* | | *2,059* | *36* | | *2,136* |
| *1.2 connected with the fair value option* | | *995* | | | *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** | **11** | **995** | **2,059** | **36** | **1,400** | **2,136** |
| **Total (A+B)** | **11** | **995** | **2,059** | **36** | **1,400** | **2,136** |

Caption 20 "Financial assets held for trading" comprises derivatives held for trading and those for which the *fair value option* has been exercised.

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

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

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

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Cash assets** | | |
| **1. Debt securities** | | |
| *a) Government and central banks* | | |
| *b) Other public entities* | | |
| *c) Banks* | | |
| *d) Other issuers* | | |
| **2.Equity instruments** | | |
| a) Banks | | |
| b) Other issuers: | | |
| - *insurance companies* | | |
| - *financial companies* | | |
| - *non-financial companies* | | |
| - *other* | | |
| **3. UCITS units** | | |
| **4. Loans** | | |
| *a) Government and central banks* | | |
| *b) Other public entities* | | |
| *c) Banks* | | |
| *d) Other parties* | | |
| **Total A** | | |
| **B. Derivatives** | | |
| a) Banks | 1,496 | 2,014 |
| b) Customers | 1,569 | 1,558 |
| **Total B** | **3,065** | **3,572** |
| **Total (A+B)** | **3,065** | **3,572** |

## SECTION 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 30

There are no balances at both year ends.

## SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40

### 4.1 Financial liabilities held for trading: breakdown

| Captions/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | 1,295,061 | 149,638 | | 1,224,877 | 74,920 | |
| *1.1 Structured securities* | | *7,651* | | | *6,875* | |
| *1.2 Other debt securities* | *1,295,061* | *141,987* | | *1,224,877* | *68,045* | |
| 2. Equity instruments | | | 9,004 | | | 9,158 |
| *2.1 Valued at fair value* | | | | | | |
| *2.2 Valued at cost* | | | *9,004* | | | *9,158* |
| 3. UCITS units | 67,763 | | 10,174 | 40,270 | | 4,872 |
| 4. Loans | | | | | | |
| **Total** | **1,362,824** | **149,638** | **19,178** | **1,265,147** | **74,920** | **14,030** |

Caption 40 "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.

### UCITS units: breakdown by main category

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Equity funds | 3,315 | |
| Bond funds | 30,948 | 20,221 |
| Flexible funds | 33,501 | 20,049 |
| Closed-ended real estate funds | 10,173 | 4,872 |
| **Total** | **77,937** | **45,142** |

The table provides a breakdown of the main categories of investments made in mutual funds included in financial assets available for sale. Note that properties confiscated under finance leases were transferred during the year to a closed real estate fund, resulting in the allocation of units of the fund for a total of 5,400 thousand euro.

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Debt securities** | **1,444,699** | **1,299,797** |
| a) Government and central banks | 1,366,877 | 1,224,877 |
| b) Other public entities | | |
| c) Banks | 72,872 | 74,277 |
| d) Other issuers | 4,950 | 643 |
| **2. Equity instruments** | **9,004** | **9,158** |
| a) Banks | | |
| b) Other issuers: | | |
| - *insurance companies* | 9,004 | 9,158 |
| - *financial companies* | *1,500* | *1,534* |
| - *non-financial companies* | *7,324* | *7,324* |
| - *other* | *180* | *300* |
| **3. UCITS units** | **77,937** | **45,142** |
| **4. Loans** | | |
| a) Government and central banks | | |
| b) Other public entities | | |
| c) Banks | | |
| d) Other parties | | |
| **Total** | **1,531,640** | **1,354,097** |

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

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Financial assets with specific fair value hedges** | **121,479** | |
| a) interest rate risk | 121,479 | |
| b) exchange rate risk | | |
| c) credit risk | | |
| d) other risks | | |
| **2. Financial assets with specific cash flow hedges** | | |
| a) interest rate risk | | |
| b) exchange rate risk | | |
| c) other | | |
| **Total** | **121,479** | |

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

### Impairment tests of financial assets available for sale

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

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

## SECTION 6 - DUE FROM BANKS - CAPTION 60

### 6.1 Due from banks: breakdown

| Type of transaction/Amounts | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **A. Due from central banks** | **97,807** | | | **97,807** | **55,356** | | | **55,356** |
| 1. Restricted deposits | | | | | | | | |
| 2. Reserve requirement | 97,807 | | | | 55,356 | | | |
| 3. Repurchase agreements | | | | | | | | |
| 4. Other | | | | | | | | |
| **B. Due from banks** | **349,862** | | | | **260,528** | | | |
| 1. Loans | 349,862 | | | 349,862 | 235,514 | | | 235,514 |
| 1.1. Current accounts and demand deposits | 57,387 | | | | 189,206 | | | |
| 1.2. Restricted deposits | 71,105 | | | | 46,276 | | | |
| 1.3 Other loans: | 221,370 | | | | 32 | | | |
| - Repurchase agreements | 220,230 | | | | | | | |
| - Finance leases | | | | | | | | |
| - Other | 1,140 | | | | 32 | | | |
| 2. Debt securities | | | | | 25,014 | | | 25,014 |
| 2.1 Structured securities | | | | | 25,014 | | | |
| 2.2 Other debt securities | | | | | | | | |
| **Total** | **447,669** | | | **447,669** | **315,884** | | | **315,884** |

**Key**
FV = fair value
BV = book value

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

The Banco'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 85.3 million (versus Euro 59.6 million last year) of which Euro 52.7 million by Banco Desio and Euro 32.6 million by Banca Popolare di Spoleto S.p.A..

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

Amounts due from the subsidiary Banca Popolare di Spoleto amount to Euro 222,926 thousand at the end of the year (147.975 thousand euro at the end of last year), of which Euro 220,230 thousand relates to repurchase agreements and Euro 2,696 thousand related to restricted deposits.

### 6.2 Due from banks with specific hedges

At the date of the financial statements there are no amounts due from banks with specific hedge.

### 6.3 Finance leases

Banco Desio has no amounts due from banks linked to finance leases.

## SECTION 7 - LOANS TO CUSTOMERS - CAPTION 70

### 7.1 Loans to customers: breakdown

| Type of transaction/Amounts | 31.12.2015 | | | | | | 31.12.2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair Value | | | Book value | | | Fair Value | | |
| | Performing loans | Non-performing loans Purchased | Non-performing loans Other | L1 | L2 | L3 | Performing loans | Non-performing loans Purchased | Non-performing loans Other | L1 | L2 | L3 |
| Loans | 5,514,959 | | 462,874 | | 2,989,337 | 3,231,456 | 5,637,636 | | 438,938 | | 3,512,827 | 2,819,325 |
| 1. Current accounts | 1,494,391 | | 119,215 | | | | 1,370,922 | | 118,941 | | | |
| 2. Repurchase agreements | | | | | | | 198,361 | | | | | |
| 3. Mortgage loans | 2,853,851 | | 314,029 | | | | 2,758,161 | | 284,408 | | | |
| 4. Credit cards, personal loans and assignments of one-fifth of salary | 30,863 | | 1,601 | | | | 56,130 | | 2,052 | | | |
| 5. Finance leases | 353,760 | | 24,318 | | | | 417,456 | | 29,065 | | | |
| 6. Factoring | 27,051 | | 355 | | | | 22,776 | | 373 | | | |
| 7. Other loans | 755,043 | | 3,356 | | | | 813,830 | | 4,099 | | | |
| Debt securities | | | | | | | | | | | | |
| 8. Structured securities | | | | | | | | | | | | |
| 9. Other debt securities | | | | | | | | | | | | |
| **Total** | **5,514,959** | **462,874** | | | **2,989,337** | **3,231,456** | **5,637,636** | | **438,938** | | **3,512,827** | **2,819,325** |

Gross loans amount to Euro 6,426,152 thousand (Euro 6,439,292 thousand at the prior year end), while total writedowns amount to Euro 448,318 thousand (Euro 362,718 thousand at the prior year end).

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

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 380,106 thousand; they all relate to the subsidiary Fides S.p.A. (Euro 340.414 thousand last year).

### 7.2 Loans to customers: breakdown by borrower/issuer

| Type of transaction/Amounts | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Performing loans | Non-performing loans Purchased | Non-performing loans Other | Performing loans | Non-performing loans Purchased | Non-performing loans Other |
| **1. Debt securities** | | | | | | |
| a) Governments | | | | | | |
| b) Other public entities | | | | | | |
| c) Other issuers | | | | | | |
| - *non-financial companies* | | | | | | |
| - *financial companies* | | | | | | |
| - *insurance companies* | | | | | | |
| - *other* | | | | | | |
| **2. Loans :** | **5,514,959** | | **462,874** | **5,637,636** | | **438,938** |
| a) Governments | | | | | | |
| b) Other public entities | | | | | | |
| c) Other parties | 5,514,959 | | 462,874 | 5,637,636 | | 438,938 |
| - *non-financial companies* | *3,770,422* | | *337,259* | *3,686,850* | | *328,848* |
| - *financial companies* | *475,415* | | *787* | *624,709* | | *1,215* |
| - *insurance companies* | *1,346* | | | *3,731* | | |
| - *other* | *1,267,776* | | *124,828* | *1,322,346* | | *108,875* |
| **Total** | **5,514,959** | | **462,874** | **5,637,636** | | **438,938** |

### 7.3 Loans to customers: assets with specific hedge

At the date of the financial statements there are no loans to customers with specific hedge.

### 7.4 Finance leases

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

| Type of transaction | 31.12.2015 Gross investment | Deferred profit | Net investment | Unsecured residual value (purchase option) | 31.12.2014 Gross investment | Deferred profit | Net investment | Unsecured residual value (purchase option) |
|---|---|---|---|---|---|---|---|---|
| Finance lease | 450,642 | -77,400 | 373,242 | 59,307 | 533,630 | -95,289 | 438,341 | 67,482 |
| - of which leaseback agreements | 28,717 | -5,452 | 23,265 | 4,667 | 32,767 | -6,475 | 26,292 | 5,196 |
| **Total** | **450,642** | **-77,400** | **373,242** | **59,307** | **533,630** | **-95,289** | **438,341** | **67,482** |

| Reference period | 31.12.2015 Gross investment | Deferred profit | Net investment | 31.12.2014 Gross investment | Deferred profit | Net investment |
|---|---|---|---|---|---|---|
| - Within one year | 8,992 | -164 | 8,828 | 13,008 | -224 | 12,784 |
| - Between one and five years | 129,335 | -8,670 | 120,665 | 159,661 | -11,797 | 147,864 |
| - Beyond five years | 312,315 | -68,566 | 243,749 | 360,961 | -83,268 | 277,693 |
| **Total** | **450,642** | **-77,400** | **373,242** | **533,630** | **-95,289** | **438,341** |

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

## SECTION 8 - HEDGING DERIVATIVES - CAPTION 80

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

| Type values | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | FV | | | NV | FV | | | NV |
| | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | |
| **A) Financial derivatives** | | **1,859** | | **109,617** | | **2,784** | | **79,617** |
| 1) Fair value | | 1,407 | | 59,617 | | 2,784 | | 79,617 |
| 2) Cash flows | | 452 | | 50,000 | | | | |
| 3) Foreign investments | | | | | | | | |
| **B) Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **1,859** | | **109,617** | | **2,784** | | **79,617** |

**Key**
NV = notional value
FV = fair value

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

### 8.2 Hedging derivatives: breakdown by hedge portfolios and by type of hedge

| Operation/Type of hedge | Fair value | | | | | | Cash flows | | Foreign investments |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | interest rate risk | exchange rate risk | credit risk | price risk | other risks | | | | |
| 1. Financial assets available for sale | | | | | | | | | |
| 2. Loans and receivables | | | | | | | | | |
| 3. Financial assets held to maturity | | | | | | | | | |
| 4. Portfolio | | | | | | | | | |
| 5. Other transactions | | | | | | | | | |
| **Total assets** | | | | | | | | | |
| 1. Financial liabilities | 1,407 | | | | | | 452 | | |
| 2. Portfolio | | | | | | | | | |
| **Total liabilities** | **1,407** | | | | | | **452** | | |
| 1. Expected transactions | | | | | | | | | |
| 2. Financial assets and liabilities portfolio | | | | | | | | | |

The specific fair value hedge in connection with financial liabilities relates to hedges in place for bonds issued by the bank.

Retrospective and prospective assessments performed during the year in compliance with the requirements of IAS 39 have confirmed the effectiveness of the hedging relationship.

## SECTION 9 - ADJUSTMENT TO FINANCIAL ASSETS WITH GENERIC HEDGE - CAPTION 90

At the balance sheet date there are no financial assets with generic hedge.

## SECTION 10 - EQUITY INVESTMENTS - CAPTION 100

### 10.1 Equity investments: details of holdings

| Name | Registered office | Operational headquarters | % Held | Voting rights % |
|---|---|---|---|---|
| **A. Subsidiaries** | | | | |
| Fides S.p.A. | Rome | Rome | 100 | 100 |
| Rovere Société de Gestion S.A. (*) | Luxembourg | Luxembourg | 80 | 80 |
| Credito Privato Commerciale S.A. in liquidation | Lugano | Lugano | 100 | 100 |
| Banca Popolare di Spoleto S.p.A. | Spoleto | Spoleto | 81.702 | 81.702 |
| **C. Companies subject to significant influence** | | | | |
| Chiara Assicurazioni S.p.A. | Milan | Milan | 32.665 | 32.665 |
| Istifid S.p.A. (*) | Milan | Milan | 35.925 | 35.925 |

(*) Recorded under caption "150. Non-current assets and disposal groups held for sale".

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

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.2 of the Banco Desio Group's consolidated financial statements.

### 10.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.3 of the Banco Desio Group's consolidated financial statements.

### 10.3.1 Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at 31 December 2015.

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 recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a Discounted Cash low 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 from it, using an appropriate discount rate for the time period in which the cash flows will be generated.

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time horizon used is the same as the 2015-2017 Business Plan approved by the Directors in February 2016, as updated for the years 2016-2017 after approval of the 2016 budget by the Directors on 11 January 2016, as well as the further development of this updated 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.

The time horizon for impairment testing of the associate Chiara Assicurazioni S.p.A is the period covered by the 2013-2019 business development plan backed by contractual arrangements for the period 2013-2022 executed with Helvetia Group, appropriately revised at the reporting date to take account of more recent data provided by management.

For companies in liquidation, the time horizon considered reflects the specific circumstances of those cases for which it was possible to accurately estimate future cash flows for an "explicit" time horizon.

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 in the future within a finite time horizon (as in the case of CPC in liquidation).

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

b) Parameters used for impairment testing

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

| Legal entity | Model | Input used | CAGR RWA /Gross premiums | Ke | g | Plan flows | Capital ratios |
|---|---|---|---|---|---|---|---|
| Banca Popolare di Spoleto S.p.A. | DDM | Update of the 2015-2017 Business Plan, extended to 2020 (*) | 2.74% | 8.30% | 1.50% | Net results | CET 1 8.50% (**) |
| Fides S.p.A. | DDM | 2016-2018 Development Plan extended to 2020 (***) | 13.41% | 9.80% | 1.50% | Net results | CET 1 8.50% (**) |
| CPC in Liquidation | DDM | Final liquidation plan | - | - | - | Net results | (****) |
| Chiara Assicurazioni S.p.A. | DDM | 2013-2022 Development plan backed by contractual agreements updated for the 2016/2020 period. | 8.97% | 9.36% | 1.50% | Net results | (****) |

(*) Considering the updated estimated future cash flows that take into account the 2015 report and the 2016 budget approved by the Board of Directors on 11 January 2016.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)
(***) Considering the 2016-2018 Development Plan extended to 2020 prepared by the company and approved by the Parent Company on 11 January 2016 as carrying out management and coordination activities.
(****) Complies with the requirements of the respective industry specific or local regulatory authorities in the countries where the entity is located.

As regards the equity investment in CPC in liquidation, the liquidation process has been substantially completed.

We are waiting in particular for the go-ahead from FINMA, the Supervisory Authority, to withdraw banking supervision, which he company is still subject to, following the resolution of the Extraordinary Shareholders' Meeting on 1 October 2015 that amended the Articles of Association, giving up its banking and security dealing activities, using the Euro as its functional currency rather than the Swiss Franc because of the absolute prevalence of the company's operations with the Parent Company and moved its year end from 31 December to 30 September.

Steps were therefore taken to update the forecasts of the costs involved in closing the liquidation so as to dissolve the company, also in order to compare the final result of the liquidation with the carrying amount of the investment.

As a result of the impairment testing performed, no writedown was needed of the aforementioned equity investments.

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts. CPC in liquidation has been excluded from the sensitivity analysis as there would be no need for significant change to have the recoverable amount substantially in line with the book value.

| Equity investments | SCR multiplier (1) | % decrease in net future results (RN) (*) | Increase in percentage points of discount rate used for future cash flows (FCFE) |
|---|---|---|---|
| Banca Popolare di Spoleto S.p.A. | - | 8.92% | 72 |
| Fides S.p.A. | - | 72.73% | Over 1,000 |
| Chiara Assicurazioni S.p.A. | 120% | 61.04% | Over 1,000 |
| | 150% | 51.28% | 997 |

(1) SCR = 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

(*) This parameter has replaced the "exogenous" parameter of the "reduction of the growth rate over the "g" Plan", used in previous sensitivity analyses, in order to have two sensitivity parameters, one of which "endogenous", given by the "% decrease in future net results" and an "exogenous" one given by the "increase in the discount rate of future cash flows", instead of two "exogenous" parameters.

### 10.4 Not significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.2 of the Banco Desio Group's consolidated financial statements.

### 10.5 Equity investments: changes in the year

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Opening balance** | **214,379** | **117,460** |
| **B. Increases** | **108,495** | **167,352** |
| B.1 Purchases | 100,628 | 141,814 |
| B.2 Write-backs | | 2,585 |
| B.3 Revaluations | | 0 |
| B.4 Other changes | 7,867 | 22,953 |
| **C. Decreases** | **5,066** | **70,433** |
| C.1 Sales | | 0 |
| C.2 Write-downs | | 0 |
| C.3 Other changes | 5,066 | 70,433 |
| **D. Closing balance** | **317,809** | **214,379** |
| **E. Total revaluations** | | |
| **F. Total write-downs** | | |

Details of the main changes in the year are provided below.

Caption "B.1 Purchases" shows the following transactions:

- increase in share capital of Banca Popolare di Spoleto by means of a contribution of bank branches, for which reference should be made to the consolidated interim financial report. As a result of this operation, the Bank's holding rose from 73.156% to 81.702%, with the value of the investment rising by 90,628 thousand euro;
- capital increase of the fully owned company Fides S.p.A. for 9,994 thousand euro.

The caption "B.4 Other changes" includes the impact of the revaluation profit of 7,857 thousand euro related to the investment in the foreign subsidiary CPC following the change in currency on 1 October 2015 from Swiss Franc to euro, as a result of the substantial completion of its liquidation process.

The caption "C.3 Other changes" reflects the elimination of the following equity investments:

- reclassification of the investment in Rovere S.A. to "Non-current assets and disposal groups held for sale" for 400 thousand euro;
- reclassification of the investment in Istifid S.p.A. to "Non-current assets and disposal groups held for sale" for 1,003 thousand euro;
- a negative change of 3,662 thousand euro in the investment in CPC due to the change in exchange rates, with a specific hedge up to the translation date of the currency from Swiss Francs to euros on 1 October, at which time the hedge was closed.

### 10.6 Commitments relating to investments in companies under joint control

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.7 of the Banco Desio Group's consolidated financial statements.

### 10.7 Commitments relating to investments in companies subject to significant influence

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.8 of the Banco Desio Group's consolidated financial statements.

### 10.8 Significant restrictions

This type of information does not have to be provided here by banks that prepare financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.9 of the Banco Desio Group's consolidated financial statements.

# LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS

## List of equity investments

*(Amounts in euro)*

| Equity investments | number of shares or quotas | % held | nominal value | Book value |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Banca Popolare di Spoleto S.p.A. | 128,240,177 | 81.702 | - | 232,371,200 |
| Credito Privato Commerciale S.A. in liquidation | 11,000 | 100 | 11,000,000 (1) | 45,828,058 |
| Fides S.p.A. | 25,000,000 | 100 | 25,000,000 | 32,193,729 |
| Rovere Société de Gestion S.A. (2) | 40,000 | 80 | 400,000 | 400,000 |
| **Total subsidiaries** | | | | **310,792,987** |
| **Associates** | | | | |
| ISTIFID S.p.A. (2) | 455,150 | 35.925 | - | 1,003,094 |
| Chiara Assicurazioni S.p.A. | 4,054,001 | 32.665 | 4,054,001 | 7,415,569 |
| **Total associates** | | | | **8,418,663** |
| **Total equity investments** | | | | **319,211,650** |
| **of which caption 100. Equity investments** | | | | **317,808,556** |
| **of which caption 140. Non-current assets and disposal groups held for sale** | | | | **1,403,094** |

(1) Nominal value in CHF
(2) Reclassified to caption 140 - Non-current assets and disposal groups held for sale

*(Amounts in euro)*

| Equity investments | number of shares or quotas | % held | nominal value | Book value |
|---|---|---|---|---|
| **Other (3)** | | | | |
| Cedacri S.p.A. | 898 | 7.122 | 898,000 | 7,296,428 |
| Be.Ve.Re.Co. S.r.l. | 30,000 | 5.825 | 15,000 | 15,494 |
| S.S.B. Società Servizi Bancari S.p.A. | 51,491 | 0.03 | 6,694 | 3,640 |
| Consorzio Bancario S.I.R. S.p.A. | 882,939 | 0.057 | 883 | 274 |
| S.W.I.F.T. - Brussels | 10 | 0,011 | 1,250 | 5,572 |
| Sviluppo Brianza | 1 | 0.698 | 2,462 | 2,612 |
| AcomeA sgr S.p.A. | 50,000 | 9.091 | 500,000 | 1,500,000 |
| Baires Produzioni s.r.l. | - | - | - | 180,000 |
| **Total** | | | | **9,004,020** |

(3) Investments recognised in caption 40 "Financial assets available for sale"

As regards the investment in Istifid S.p.A., during the course of the year there was an increase in the holding from 31.39% to 35.93% following the repurchase of treasury shares and their consequent cancellation as approved by the investee company's shareholders' meeting. The shareholders' meeting also decided to cancel the par value of the existing shares.

# LIST OF SIGNIFICANT EQUITY INVESTMENTS (art. 126 Consob resolution 11971/1999)

## List of relevant equity investments (art.126)

| Name | number of shares or quotas with voting rights | % stake with voting rights | Title | Nature of holding |
|---|---|---|---|---|
| Banca Popolare di Spoleto S.p.A. | 128,240,177 | 81.702 | owned | direct |
| Chiara Assicurazioni S.p.A. | 4,054,001 | 32.665 | owned | direct |
| Credito Privato Commerciale S.A. in liquidation | 11,000 | 100 | owned | direct |
| Fides S.p.A. | 25,000,000 | 100 | owned | direct |
| ISTIFID S.p.A. | 445,150 | 35.925 | owned | direct |
| Rovere Société de Gestion S.A. | 40,000 | 80 | owned | direct |

### 10.8 Significant restrictions

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

## SECTION 11-PROPERTY, PLANT AND EQUIPMENT - CAPTION 110

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

| Assets/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1 Own assets** | **136,491** | **136,708** |
| a) land | 41,800 | 41,806 |
| b) property | 81,807 | 83,396 |
| c) furniture | 3,975 | 4,464 |
| d) electronic systems | 3,268 | 1,977 |
| e) other | 5,641 | 5,065 |
| **2 Land and property under finance lease** | | |
| a) land | | |
| b) property | | |
| c) furniture | | |
| d) electronic systems | | |
| e) other | | |
| **Total** | **136,491** | **136,708** |

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

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:

- property: 50 years,
- office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
- terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different and specified useful lives.

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

### 11.2 Investment property: breakdown of assets valued at cost

| Assets/Amounts | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Own assets** | **1,080** | | | **932** | **1,095** | | | **943** |
| a) land | 448 | | | 378 | 448 | | | 387 |
| b) property | 632 | | | 554 | 647 | | | 556 |
| **2. Assets purchased under finance leases** | | | | | | | | |
| a) land | | | | | | | | |
| b) property | | | | | | | | |
| **Total** | **1,080** | | | **932** | **1,095** | | | **943** |

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

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

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

### 11.4 Investment property: breakdown of assets carried at fair value

As at the balance sheet date, the Bank did not have any investment property measured at fair value.

## 11.5 Property, plant and equipment for business purposes: change of the year

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **41,806** | **101,042** | **28,283** | **19,970** | **33,495** | **224,596** |
| A.1 Total net w ritedow ns | | 17,646 | 23,819 | 17,993 | 28,430 | 87,888 |
| **A.2 Net opening balance** | **41,806** | **83,396** | **4,464** | **1.97** | **5,065** | **136,708** |
| **B. Increases** | | **450** | **526** | **2,250** | **2,852** | **6,078** |
| B.1 Purchases | | 447 | 510 | 2,189 | 1,895 | 5,041 |
| of w hich: business combinations | | | 60 | 14 | 71 | 145 |
| B.2 Capitalised improvement costs | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Increase in fair value booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| B.5 Exchange gains | | | | | | |
| B.6 Transfer from investment property | | | | | | |
| B.7 Other changes | | 3 | 16 | 61 | 957 | 1,037 |
| **C. Decreases** | **6** | **2,040** | **1,015** | **959** | **2,275** | **6,295** |
| C.1 Sales | 6 | 14 | 41 | 229 | 1,107 | 1,397 |
| C.2 Depreciation | | 2,026 | 974 | 730 | 1,137 | 4,867 |
| C.3 Impairment w rite-dow ns booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| C.4 Decreases in fair value booked to: | | | | | | |
| a) shareholders' equity | | | | | | |
| b) income statement | | | | | | |
| C.5 Exchange losses | | | | | | |
| C.6 Transfers to: | | | | | | |
| a) investment property, plant and equipment | | | | | | |
| b) assets held for sale | | | | | | |
| C.7 Other changes | | | | | 31 | 31 |
| **D. Net closing balance** | **41,800** | **81,806** | **3,975** | **3,268** | **5,642** | **136,491** |
| D.1 Net total w rite-dow ns | | 19,668 | 24,823 | 18,807 | 28,737 | 92,034 |
| **D.2 Gross closing balance** | **41,800** | **101,474** | **28,798** | **22,075** | **34,378** | **228,525** |
| **E. Measurement at cost** | | | | | | |

The sub-captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation. The caption "of which: – business combinations" comprises the balances of the Milan branch purchased from Banca Popolare di Spoleto.

From the sale of property, plant and equipment, as indicated by the sub-caption "C.1 Sales", realised gains of Euro 75 thousand and realised losses of Euro 18 thousand arose on disposal and have been recognised in the income statement in the caption 190 "Other operating charges/income".

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

**11.6 Investment property: changes in the year**

| | Total | |
|---|---|---|
| | Land | Buildings |
| **A. Opening balance** | **448** | **647** |
| **B. Increases** | | |
| B.1 Purchases | | |
| B.2 Capitalised improvement costs | | |
| B.3 Positive changes in fair value | | |
| B.4 Write-backs | | |
| B.5 Foreign exchange gains | | |
| B.6 Transfers from assets used in business | | |
| B.7 Other changes | | |
| **C. Decreases** | | |
| C.1 Sales | | |
| C.2 Depreciation | | 15 |
| C.3 Negative changes in fair value | | |
| C.4 Impairment w rite-dow ns | | |
| C.5 Foreign exchange losses | | |
| C.6 Transfers to other asset categories | | |
| a) assets used in business | | |
| b) non-current assets and disposal groups held for sale | | |
| C.7 Other changes | | |
| **D. Closing balance** | **448** | **632** |
| E. Measurement at fair value | | |

**11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)**

At year-end there are no commitments to purchase property, plant and equipment.

## OWN PROPERTY (excluding property under finance lease)

**Assets used in business**

| Location of the building | | Surface area of office space (sqm) | Net carrying amount (in thousands of Euro) |
|---|---|---|---|
| ALBINO | Viale Libertà 23/25 | 332 | 689 |
| ARCORE | Via Casati, 7 | 362 | 554 |
| BAREGGIO | Via Falcone, 14 | 200 | 277 |
| BESANA BRIANZA | Via Vittorio Emanuele, 1/3 | 625 | 817 |
| BOLOGNA | Porta Santo Stefano, 3 | 1,223 | 8,717 |
| BOLOGNA SANTA VIOLA | Via Della Ferriera, 4 | 200 | 997 |
| BOVISIO MASCIAGO | Via Garibaldi, 8 | 382 | 421 |
| BRESCIA | Via Verdi, 1 | 530 | 1,815 |
| BRESCIA | 1st floor Via Verdi, 1 | 190 | 1,084 |
| BRIOSCO | Via Trieste, 14 | 430 | 409 |
| BRUGHERIO | Viale Lombardia, 216/218 | 425 | 1,269 |
| BUSTO ARSIZIO | Via Volta, 1 | 456 | 994 |
| CADORAGO | Via Mameli, 5 | 187 | 295 |
| CANTÙ | Via Manzoni, 41 | 1,749 | 2,197 |
| CARATE BRIANZA | Via Azimonti, 2 | 773 | 969 |
| CARUGATE | Via XX Settembre, 8 | 574 | 612 |
| CARUGO | Via Cavour, 2 | 252 | 371 |
| CASTELLANZA | Corso Matteotti, 18 | 337 | 417 |
| CESANO MADERNO | Corso Roma, 15 | 692 | 870 |
| CHIAVARI | Piazza Matteotti | 68 | 1,006 |
| CINISELLO BALSAMO | Via Frova, 1 | 729 | 904 |
| CINISELLO BALSAMO | Piazza Gramsci | 26 | 15 |
| COLOGNO MONZESE | Via Cavallotti, 10 | 128 | 47 |
| CUSANO MILANINO | Viale Matteotti, 39 | 522 | 679 |
| DESIO | Piazza Conciliazione, 1 | 1,694 | 2,074 |
| DESIO | Via Rovagnati, 1 | 20,032 | 29,122 |
| DESIO | Via Volta, 96 | 238 | 587 |
| GARBAGNATE | Via Varese, 1 | 400 | 1,197 |
| GIUSSANO | Via Addolorata, 5 | 728 | 924 |
| LECCO | Via Volta, ang. Via Montello | 615 | 1,690 |
| LEGNANO | Corso Italia, 8 | 1,545 | 2,669 |
| LISSONE | Via San Carlo, 23 | 583 | 1,341 |
| MEDA | Via Indipendenza, 60 | 678 | 797 |
| MILAN | Via della Posta, 8 | 1,912 | 7,739 |
| MILAN | Via Foppa | 223 | 787 |
| MILAN | Via Menotti | 825 | 2,930 |
| MILAN | Via Moscova, 30/32 | 668 | 5,209 |
| MILAN | Via Traù, 3 | 422 | 2,064 |
| MILAN | Piazza De Angeli, 7/9 | 385 | 2,184 |
| MISINTO | Piazza Mosca, 3 | 330 | 359 |
| MODENA | Via Saragozza, 130 | 720 | 4,238 |
| MONZA | Via Manzoni, 37 | 397 | 726 |
| MONZA | Corso Milano, 47 | 453 | 875 |
| MONZA | Via Rota, 66 | 330 | 544 |
| MONZA | Piazza S. Paolo, 5 | 496 | 3,711 |
| NOVA MILANESE | Piazza Marconi, 5 | 526 | 676 |
| NOVATE MILANESE | Via Matteotti, 7 | 462 | 644 |
| ORIGGIO | Largo Croce, 6 | 574 | 755 |
| PADUA | Via Matteotti, 20 | 550 | 3,458 |
| PALAZZOLO MILANESE | Via Monte Sabotino, 1 | 605 | 651 |
| PIACENZA | Via Vittorio Veneto,67/a | 486 | 1,428 |
| REGGIO EMILIA | Via Terrachini,1 ang. Via Risorgimento | 713 | 2,633 |
| RENATE | Piazza don Zanzi, 2 | 429 | 642 |

| Location of the building | | Surface area of office space | Net carrying amount (in thousands of Euro) |
|---|---|---|---|
| RHO | Via Martiri Libertà, 3 | 410 | 707 |
| RUBIERA | Via Emilia Ovest, 7 | 310 | 1,380 |
| SARONNO | Via Rimembranze, 42 | 530 | 735 |
| SEGRATE | Via Cassanese, 200 | 170 | 289 |
| SEREGNO | Via Trabattoni, 40 | 1,233 | 2,071 |
| SESTO SAN GIOVANNI | Piazza Oldrini | 377 | 777 |
| SEVESO | Via Manzoni, 9 | 382 | 1,072 |
| SOVICO | Via Frette, 10 | 673 | 1,063 |
| TURIN | Via Filadelfia, 136 | 370 | 1,691 |
| VAREDO | Via Umberto I°, 123 | 501 | 519 |
| VEDUGGIO | Via Vittorio Veneto, 51 | 257 | 240 |
| VERANO BRIANZA | Via Preda, 17 | 322 | 386 |
| VERANO BRIANZA | Via Furlanelli, 3 | 790 | 695 |
| VIGEVANO | Via Decembrio, 21 | 480 | 1,964 |
| VIMERCATE | Via Milano, 6 | 338 | 938 |
| **Sub total** | | **56,554** | **123,606** |
| **Investment property** | | | |
| MEDA parking space | Via Indipendenza, 60 | 15 | 6 |
| MILAN | 1st floor Via Traù, 3 | 205 | 1,074 |
| **Sub total** | | **220** | **1,080** |
| **Total** | | **56,774** | **124,686** |

## Table of revalued assets recognised in the financial statements

(pursuant to art. 10 of Law no. 72 of 19/3/1983)

*(amounts in Euro)*

| | Revaluations in line with inflation | | | Revaluations to reflect change in value | | TOTAL |
|---|---|---|---|---|---|---|
| | LAW 576/75 | LAW 72/83 | LAW 413/91 | Merger deficit | Voluntary revaluations | |
| DESIO, via Rovagnati | | 937,369 | 6,844,273 | | | 7,781,642 |
| CINISELLO, P.zza Gramsci | | | 1,173 | | | 1,173 |
| CUSANO M.NO, Via Matteotti | 10,170 | 25,483 | 19,944 | | 12,925 | 68,522 |
| CANTÙ, Via Manzoni | | 22,884 | 185,972 | 1,321,713 | | 1,530,569 |
| CARUGATE, Via XX Settembre | | | 355 | | 4,132 | 4,487 |
| MILAN, Via della Posta | | | 189,958 | | 51,645 | 241,603 |
| NOVATE M.SE, Via Matteotti | | | 22,022 | 170,257 | | 192,279 |
| GIUSSANO, Via dell'Addolorata | | | 26,067 | | | 26,067 |
| MEDA, Via Indipendenza | | | 51,616 | | | 51,616 |
| MONZA Corso Milano | | | 227,521 | | | 227,521 |
| BOVISIO, Via Garibaldi | | | 26,357 | | | 26,357 |
| PADERNO DUGNANO, Via Casati | | | 24,339 | | | 24,339 |
| LEGNANO, Corso Garibaldi | | | 176,676 | | | 176,676 |
| SOVICO, Via G. da Sovico | | | 62,703 | | | 62,703 |
| **Total** | **10,170** | **985,736** | **7,858,976** | **1,491,970** | **68,702** | **10,415,554** |

## SECTION 12 - INTANGIBLE ASSETS - CAPTION 120

### 12.1 Intangible assets: breakdown by type

| Assets/Amounts | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Limited duration | Unlimited duration | Limited duration | Unlimited duration |
| A.1 Goodwill | | 1,729 | | 1,729 |
| A.2 Other intangible assets | 1,843 | | 1,771 | |
| A.2.1 Carried at cost: | 1,843 | | 1,771 | |
| a) Intangible assets generated internally | | | | |
| b) Other assets | 1,843 | | 1,771 | |
| A.2.2 Carried at fair value: | | | | |
| a) Intangible assets generated internally | | | | |
| b) Other assets | | | | |
| **Total** | **1,843** | **1,729** | **1,771** | **1,729** |

The intangible assets of the Bank are valued at cost.

Goodwill recorded in the financial statements, having an indefinite useful life, is not amortised on a straight-line basis but subjected to impairment testing at least once a year, particularly at the year end reporting date or, in any case, any time circumstances arise that suggest that there may be impairment. The evaluation made at the end of the year showed no 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 is four years and for application software is 4 or 5 years, based on the useful life specified within the asset category.

### 12.1.1 Impairment test

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2015.

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

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from it, 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 able to distribute to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

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

Impairment testing was thus conducted for the legal entity Banco di Desio e della Brianza S.p.A on the basis of the criterions and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time horizon used is the same as the 2015-2017 Business Plan approved by the Directors in February 2016, as updated for the years 2016-2017 after approval of the 2016 budget by the Directors on 11 January 2016, as well as the further development of this updated 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 into account of the 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 |
|---|---|---|---|---|---|---|---|
| Banco di Desio e della Brianza S.p.A. | DDM | 2015-2017 Business Plan extended to 2020 (*) | 1.00% | 8.30% | 1.50% | Net results | CET 1 8.50% (**) |

(*) Considering the updated estimated future cash flows that take into account the 2015 report and the 2016 budget approved by the Board of Directors on 11 January 2016.
(**) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

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

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

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

| CGU | % decrease in net future results (RN) (*) | Increase in p.p. of discount rate used for future cash flows (FCFE) |
|---|---|---|
| Banco di Desio e della Brianza S.p.A. | 32.81% | 385 |

(*) This parameter has replaced the "exogenous" parameter of the "reduction of the growth rate over the "g" Plan", used in previous sensitivity analyses, in order to have two sensitivity parameters, one of which "endogenous", given by the "% decrease in future net results" and an "exogenous" one given by the "increase in the discount rate of future cash flows", instead of two "exogenous" parameters.

## 12.2 Intangible assets: changes in the year

| | Goodwill | Other intangible assets: | | Other intangible assets: other | | Total |
|---|---|---|---|---|---|---|
| | | LIM | UNLIM | LIM | UNLIM | |
| **A. Gross opening balance** | **3,458** | | | **6,648** | | **10,106** |
| A.1 Total net writedowns | 1,729 | | | 4,877 | | 6,606 |
| **A.2 Net opening balance** | **1,729** | | | **1,771** | | **3,500** |
| **B. Increases** | | | | **1,231** | | **1,231** |
| B.1 Purchases | | | | 1,195 | | 1,195 |
| of which: business combinations | | | | | | |
| B.2 Increases in internally generated intangible assets | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Positive changes in fair value | | | | | | |
| - recognised in equity | | | | | | |
| - recognised in income statement | | | | | | |
| B.5 Foreign exchange gains | | | | | | |
| B.6 Other changes | | | | 36 | | 36 |
| **C. Decreases** | | | | **1,159** | | **1,159** |
| C.1 Sales | | | | 26 | | 26 |
| C.2 Write-downs | | | | 1,133 | | 1,133 |
| - amortisation | | | | 1,133 | | 1,133 |
| - Write-downs | | | | | | |
| + shareholders' equity | | | | | | |
| + income statement | | | | | | |
| C.3 Negative changes in fair value | | | | | | |
| - recognised in equity | | | | | | |
| - recognised in income statement | | | | | | |
| C.4 Transfers to non-current assets held for sale | | | | | | |
| C.5 Foreign exchange losses | | | | | | |
| C.6 Other changes | | | | | | |
| **D. Net closing balance** | **1,729** | | | **1,843** | | **3,572** |
| D.1 Total net writedowns | 1,729 | | | 5,789 | | 7,518 |
| **E. Gross closing balance** | **3,457** | | | **7,632** | | **11,089** |
| F. Measurement at cost | | | | | | |

**Key**
LIM: limited duration
UNLIM: unlimited duration

## 12.3 Other information

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

## SECTION 13 - TAX ASSETS AND LIABILITIES - ASSET CAPTION 130 AND LIABILITY CAPTION 80

### 13.1 Deferred tax assets: breakdown

| | IRES | IRAP | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| **A) With contra-entry to the income statement:** | | | | |
| Tax deductible goodwill | 2,664 | 540 | 3,204 | 2,839 |
| Write-down of loans to customers deductible on a straight-line basis | 93,144 | 11,801 | 104,945 | 97,740 |
| General allowance for doubtful accounts | 305 | | 305 | 305 |
| Write-down of loans to customers outstanding at 31.12.1994 | 9 | | 9 | 9 |
| Statutory depreciation of property, plant and equipment | 81 | | 81 | 76 |
| Provision for guarantees and commitments and country risk | 295 | | 295 | 217 |
| Provisions for personnel costs | 4,876 | 832 | 5,708 | 5,019 |
| Provision for law suits | 2,789 | | 2,789 | 2,314 |
| Provision for claw-backs | 559 | 113 | 671 | 391 |
| Provision for sundry charges | 298 | 23 | 321 | 320 |
| Tax provision for termination indemnities | 309 | | 309 | 301 |
| Other general expenses deductible in the following year | 67 | | 67 | 10 |
| Other | | | 151 | 32 |
| **Total A** | **105,396** | **13,309** | **118,705** | **109,573** |
| **B) With contra-entry to shareholders' equity:** | | | | |
| Tax provision for termination indemnities | 116 | 24 | 140 | 205 |
| Write-down of securities classified as AFS | 1,875 | 386 | 2,261 | 872 |
| **Total B** | **1,991** | **410** | **2,401** | **1,077** |
| **Total (A+B)** | **107,387** | **13,719** | **121,106** | **110,650** |

The deferred tax assets that have been recognised, with an opposite entry to the income statement, are derived mainly from temporary differences, deductible in future years, relating to:

- writedown of loans to customers exceeding the limit of immediate deductibility as per the tax regulations, for a total of Euro 105,260 thousand;
- provision for guarantees and commitments of Euro 295 thousand;
- provision for solidarity Fund of Euro 2,218 thousand;
- other employee related provisions of Euro 2,789 thousand;
- provision for long-service bonus for Euro 611 thousand;
- tax provision for termination indemnities of Euro 308 thousand;
- provision for future charges of Euro 3,781 thousand (of which Euro 152 thousand, provision for the Interbank Deposit Protection Fund);
- tax deductible goodwill of Euro 3,204 thousand;
- statutory depreciation of property, plant and equipment of Euro 81 thousand;
- other general expenses deductible in the following year of Euro 67 thousand.

## PROBABILITY TEST ON DEFERRED TAXES

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 107,643 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting that there will be sufficient taxable income in the future to recover these assets. In particular, an analysis was made of deferred tax assets by type and timing of recovery, as well as of the future profitability of the Bank and the related taxable income on the basis of the forecast updated after the approval of the Budget by the Board of Directors of 11 January 2016. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

### 13.2 Deferred tax liabilities: breakdown

| | IRES | IRAP | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| **A) With contra-entry to the income statement:** | | | | |
| Tax depreciation of buildings | 6,695 | 871 | 7,566 | 7,568 |
| Tax depreciation of property, plant and equipment | | 15 | 15 | 15 |
| Tax amortisation of goodwill | 476 | 96 | 572 | 1,232 |
| Tax amortisation of deferred charges (software) | 2 | 5 | 7 | 7 |
| Tax provision as per art. 106, paragraph 3 | 20 | | 20 | 20 |
| Other | 1,757 | | 1,757 | 2,038 |
| **Total A** | **8,949** | **988** | **9,937** | **10,880** |
| **B) With contra-entry to shareholders' equity:** | | | | |
| Cash-flow hedges | 26 | 5 | 31 | |
| Revaluation of AFS securities | 1,915 | 388 | 2,303 | 2,222 |
| Revaluation of equity investments | 6 | 24 | 30 | 30 |
| Tax provision for termination indemnities | 51 | | 51 | |
| **Total B** | **1,998** | **417** | **2,415** | **2,252** |
| **Total (A+B)** | **10,947** | **1,405** | **12,352** | **13,132** |

Deferred taxes are generated by positive income components taxable in years subsequent to that in which they are recognised in the income statement, or negative income components deducted in advance with respect to their year of accrual.

Deferred tax liabilities recognised in the financial statements, with a contra-entry to the income statement, refer to:

- tax depreciation of property, plant and equipment of Euro 7,581 thousand;
- tax depreciation of intangible assets of Euro 579 thousand;
- recalculation of the deduction from IRES of IRAP on previous years' labour cost for 140 thousand euro;
- other deferred taxes, made up of:
  - capital gains on financial assets that, in accordance with art. 86, para. 4, of the Consolidated Income Tax Act, are taxable in five equal portions in the year of the gain and in the four subsequent years, for Euro 1,509 thousand;
  - revaluation of equity investments for 108 thousand euro;
  - loan losses covered by off-balance sheet provisions for Euro 20 thousand.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **109,573** | **78,478** |
| **2. Increases** | **14,210** | **46,977** |
| 2.1 Deferred tax assets recognised during the year | 14,075 | 37,835 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) write-backs | | |
| d) other | 14,075 | 37,835 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | 135 | 9,142 |
| *of which: business combinations* | *1* | *8,098* |
| **3. Decreases** | **5,078** | **15,882** |
| 3.1 Deferred tax assets cancelled in the year | 3,170 | 14,043 |
| a) reversals | 3,170 | 14,043 |
| b) written down as no longer recoverable | | |
| c) change in accounting policies | | |
| d) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | 1,908 | 1,839 |
| a) Conversion to tax credits as per L. 214/2011 | | |
| b) Other | 1,908 | 1,839 |
| *of which: business combinations* | *1,908* | |
| **4. Closing balance** | **118,705** | **109,573** |

Caption "2.1 Deferred tax assets recognised during the year" mainly concerns the recognition of deferred tax assets:

- Euro 9,076 thousand relating to write-downs and loan losses in connection with customer loans, 25% of their amount is deductible over subsequent years (Decree Law no. 83 of 27 June 2015, converted with amendments into Law 132 on 6 August 2015). .
- Euro 2,436 thousand relating to non deductible provisions for risks and charges and employee related provisions;
- Euro 1,089 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions;
- Euro 873 thousand, to the IRAP impacts 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 583 thousand on the goodwill transferred for statutory purposes to Banca Popolare di Spoleto S.p.A.

The sub-caption “2.3 Other increases” relates to the recognition of a receivable for deferred tax assets as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2014 on costs which became non-deductible on presentation of the 2014 tax return.

Deferred tax assets cancelled in the year are essentially due to the utilisation of taxed provisions(2,833 thousand euro).

The caption “3.3 Other decreases” refers to deferred tax assets transferred within the business combination transaction which took place during the year.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **100,579** | **70,516** |
| **2. Increases** | **9,076** | **43,486** |
| *of which: business combinations* | | *7,621* |
| **3. Decreases** | **2,012** | **13,423** |
| 3.1 Deferred tax assets cancelled in the year | 141 | 11,809 |
| 3.2 Reduction in tax rates | | |
| a) arising from the loss for the year | | |
| b) arising from tax losses | | |
| 3.3 Other decreases | 1,871 | 1,614 |
| *of which: business combinations* | *1,871* | |
| **4. Closing balance** | **107,643** | **100,579** |

The caption "2. Increases" refers to the provision for deferred tax assets for Euro 9,076 thousand, related to write-downs and loan losses in connection with customer loans, 25% of their amount is deductible over subsequent years (Decree Law no. 83 of 27 June 2015, converted with amendments into Law 132 on 6 August 2015).

"3.1 Reversals" refers to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

The caption “3.3 Other decreases” refers to deferred tax assets transferred as part of the business combination that took place during the year. For details please see Part G of these notes.

### 13.4 Change in deferred tax liabilities (as a contra-entry of the income statement)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **10,880** | **9,011** |
| **2. Increases** | **365** | **2,635** |
| 2.1 Deferred tax assets recognised during the year | 365 | 1,983 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 365 | 1,983 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | 652 |
| *of which: business combinations* | | *438* |
| **3. Decreases** | **1,308** | **766** |
| 3.1 Deferred tax assets cancelled in the year | 1,308 | 766 |
| a) reversals | 1,308 | 766 |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | |
| *of which: business combinations* | | |
| **4. Closing balance** | **9,937** | **10,880** |

The caption "2.1 Deferred tax liabilities recognised during the year" relates to the recognition of deferred tax liabilities of Euro 245 thousand due to the recalculation of the IRAP deduction on previous years' labour costs from IRES (245 thousand euro).

Deferred tax liabilities cancelled during the year are attributable:

- for Euro 673 thousand relating to the reversal of deferred tax liabilities on the goodwill transferred for statutory purposes to subsidiary Banca Popolare di Spoleto S.p.A.;
- for Euro 529 thousand to the share of capital gains realised on financial assets in 2013 and 2014, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act).

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **1,077** | **1,934** |
| **2. Increases** | **1,832** | **1,008** |
| 2.1 Deferred tax assets recognised during the year | 1,684 | 956 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 1,684 | 956 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | 148 | 52 |
| *of which: business combinations* | | *52* |
| **3. Decreases** | **508** | **1,865** |
| 3.1 Deferred tax assets cancelled in the year | 508 | 1,270 |
| a) reversals | 508 | 1,270 |
| b) w ritten dow n as no longer recoverable | | |
| c) due to changes in accounting policies | | |
| d) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | 595 |
| *of which: business combinations* | | |
| **4. Closing balance** | **2,401** | **1,077** |

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

The caption “2.3 Other increases” relates to the recognition of a deferred tax asset on goodwill paid for the acquisition of the Milan branch from BPS.

Deferred tax assets cancelled in the year of Euro 508 thousand mainly relate to:

- for Euro 294 thousand to the valuation of securities classified under Financial assets available for sale;
- for Euro 205 thousand to the valuation of the actuarial reserve for termination indemnities.

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Opening balance** | **2,252** | **2,554** |
| **2. Increases** | **2,006** | **2,014** |
| 2.1 Deferred tax assets recognised during the year | 2,006 | 2,014 |
| a) relating to prior years | | |
| b) due to changes in accounting policies | | |
| c) other | 2,006 | 2,014 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| *of which: business combinations* | | |
| **3. Decreases** | **1,844** | **2,316** |
| 3.1 Deferred tax assets cancelled in the year | 1,844 | 2,316 |
| a) reversals | 1,844 | 2,316 |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases | | |
| *of which: business combinations* | | |
| **4. Closing balance** | **2,414** | **2,252** |

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

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

### 13.7 Other information

The reduction of the IRES rate from 27.5% to 24%, introduced by art. 1, para. 61 et seq. of the 2016 Stability Law (Law 208 of 28 December 2015), scheduled to run from 1 January 2017, is neutralised for banks and financial institutions by the introduction of a 3.5% surtax on the IRES rate, also effective from 2017 (art. 1, para. 65 et seq of the same Law). With the introduction of the surtax, therefore, the conditions for "adapting" the amount of deferred tax assets and liabilities in the financial statements at 31 December 2015 to the lower IRES rate no longer apply.

### Current tax assets

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| IRES | 12,502 | |
| IRAP | 8,099 | |
| **Total** | **20,601** | |

### Deferred tax liabilities

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| IRES | | 1,569 |
| IRAP | | 12 |
| **Total** | | **1,581** |

## SECTION 14 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE ASSOCIATED LIABILITIES – ASSET CAPTION 140 AND LIABILITY CAPTION 90

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Individual assets** | | |
| A.1 Financial assets | | |
| A.2 Equity investments | 1,403 | |
| A.3 Property, plant and equipment | | |
| A.4 Intangible assets | | |
| A.5 Other non-current assets | | |
| **Total A** | **1,403** | |
| of which carried at cost | | |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | 1,403 | |
| **B. Groups of assets (discontinued operations)** | | |
| B.1 Financial assets held for trading | | |
| B.2 Financial assets designated at fair value through profit and loss | | |
| B.3 Financial assets available for sale | | |
| B.4 Financial assets held to maturity | | |
| B.5 Due from banks | | |
| B.6 Loans to customers | | 1,096,495 |
| B.7 Equity investments | | |
| B.8 Property, plant and equipment | | 5,623 |
| B.9 Intangible assets | | 8,116 |
| B.10 Other assets | | 7,294 |
| **Total B** | | **1,117,528** |
| of which carried at cost | | 1,117,528 |
| 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 | | 10,659 |
| D.2 Due to customers | | 950,182 |
| D.3 Debt securities in issue | | 548 |
| D.4 Financial liabilities held for trading | | |
| D.5 Financial liabilities designated at fair value through profit and loss | | |
| D.6 Provisions | | 817 |
| D.7 Other liabilities | | 31,569 |
| **Total D** | | **993,775** |
| of which carried at cost | | 993,775 |
| of which designated at fair value through profit and loss level 1 | | |
| of which designated at fair value through profit and loss level 2 | | |
| of which designated at fair value through profit and loss level 3 | | |

The table provides information about non-current assets and disposal groups held for sale and associated liabilities, reclassified under asset caption 140 and liability caption 90 in accordance with IFRS 5.

Equity investments relate to the carrying amount of the subsidiaries Rovere Société de Gestion SA and Istifid S.p.A.

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.. In this regard, Rovere S.d.G. and Rovere Sicav have carried out negotiations to merge the sub-funds of the Sicav with the funds managed by the SGR, both placed by Banco Desio, among others, (after completing the statutory and supervisory process stipulated by the respective regulations during the first few months of next year).

On 24 July 2015 a market counterparty made a non-binding proposal to absorb Istifid S.p.A., which is subject to significant influence on the part of the Parent Company. The shareholders of the subsidiary opened negotiations that could open up such a proposal, leading to a merger with a share exchange ratio based on net asset value. In particular, the shareholders have agreed to carry out a due diligence to formalise a preliminary sales agreement, with the closing scheduled for March 2016.

The comparative figures included in captions 140 of Assets and 90 of Liabilities in accordance with IFRS 5 relate to the 32 branches included in the scope of the business unit transferred to Banca Popolare di Spoleto S.p.A. on 1 April 2015.

### 14.2 Other information

The valuation of investments included in non-current assets is at cost. Both equity investments represent non-current assets held for sale that do not represent a major line of business, which is why the Bank did not disclose the result generated by them under "Profit (loss) on non-current assets held for sale".

## SECTION 15 - OTHER ASSETS – CAPTION 150

### 15.1 Other assets: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Tax credits | | |
| - capital portion | 7,241 | 7,562 |
| - interest | | |
| Amounts recoverable from the tax authorities for advances paid | 39,397 | 33,252 |
| Withholding tax credits | | 3 |
| Cheques negotiated to be cleared | 15,751 | 20,827 |
| Guarantee deposits | | |
| Invoices issued to be collected | 299 | 250 |
| Debtors for securities and coupons to be collected by third parties | | |
| Printer consumables and stationery | | |
| Items being processed and in transit with branches | 9,111 | 25,835 |
| Currency spreads on portfolio transactions | 188 | 213 |
| Investments of the supplementary fund for termination indemnities | 362 | 443 |
| Leasehold improvement expenditure | 11,957 | 13,522 |
| Accrued income and prepaid expenses | 605 | 693 |
| Other items | 18,276 | 17,873 |
| **Total** | **103,187** | **120,473** |

The change in "Tax credits - capital portion", mainly refers to the reimbursement of 336 thousand euro received by the Bank from the Tax Authorities of the withholding tax paid on the step-up of the tax value of goodwill carried out in 2009, pursuant to art. 15, paragraph 10, Legislative Decree 185/2008 for the merged company Banco Desio Veneto S.p.A..

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

- a receivable for withholding tax on interest on deposits and current accounts of Euro 5,529 thousand;
- a receivable for virtual stamp duty of Euro 22,103 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 11,728 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013;
- receivable for an advance payment of substitute tax on medium/long term loans of Euro 37 thousand.

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

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

“Leasehold improvement expenditure” is amortised each year in accordance with the residual period of the lease agreement. New investments of Euro 459 thousand have been made during the year; the related amortisation charge, which is recognised in the caption “190 – Other operating charges”, amounts to Euro 2,024 thousand.

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

The more significant figures in “Other items” are those related to loans and receivables not yet collected of 11,281 thousand euro and invoices to be issued of 1,283 thousand euro.

## LIABILITIES

## SECTION 1 - DUE TO BANKS - CAPTION 10

### 1.1 Due to banks: breakdown

| Type of transaction/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1. Due to central banks** | **551,009** | **702,355** |
| **2. Due to banks** | **259,824** | **87,735** |
| 2.1. Current accounts and demand deposits | 56,393 | 47,063 |
| 2.2. Restricted deposits | 42,513 | 3,622 |
| 2.3. Loans | 160,918 | 37,050 |
| 2.3.1 Repurchase agreements | | |
| 2.3.2 Other | 160,918 | 37,050 |
| 2.4 Payables for commitments to repurchase own equity instruments | | |
| 2.5 Other payables | | |
| **Total** | **810,833** | **790,090** |
| **Fair value - level 1** | | |
| **Fair value - level 2** | | |
| **Fair value - level 3** | **810,833** | **790,090** |
| **Total fair value** | **810,833** | **790,090** |

Intragroup balances with the subsidiary Banco Popolare di Spoleto at the year end amount to Euro 71,737 thousand and relate to current accounts and demand deposits, of which Euro 32,614 thousand are restricted deposits for a compulsory reserve that the Bank holds on behalf of the subsidiary.

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

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

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

As at the reporting date, Banco Desio did not have any structured loans due to banks.

### 1.4 Due to banks with specific hedge

At the reference dates, Banco Desio did not have amounts due to banks with specific hedge.

### 1.5 Finance lease payables

At the reference dates, Banco Desio did not have finance lease contracts with banks.

## SECTION 2 - DUE TO CUSTOMERS - CAPTION 20

### 2.1 Due to customers: breakdown

| Type of transaction/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Current accounts and demand deposits | 4,333,008 | 4,039,618 |
| 2. Restricted deposits | 640,581 | 553,997 |
| 3. Loans | 152,105 | 96,429 |
| 3.1 Repurchase agreements | 152,105 | 93,756 |
| 3.2 Other | | 2,673 |
| 4. Payables for commitments to repurchase own equity instruments | | |
| 5. Other payables | 29,365 | 19,410 |
| **Total** | **5,155,059** | **4,709,455** |
| **Fair value - level 1** | | |
| **Fair value - level 2** | | |
| **Fair value - level 3** | **5,155,059** | **4,709,455** |
| **Total fair value** | **5,155,059** | **4,709,455** |

The subcaption "3.1 repurchase agreements" include transactions with institutional counterparties of Euro 152,105 thousand (Euro 93,049 thousand last year).

The main components of "Other payables" relate to: cashier's checks for Euro 28,774 thousand and checks for Euro 548 thousand (last year cashier's checks for Euro 18,789 thousand and checks for Euro 532 thousand respectively).

The loans to companies belonging to the Banco Desio Group amount to 99 thousand euro, all relating to the subsidiary Fides S.p.A. (165 thousand euro last year). Transactions are carried out at market rates.

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

As at the reporting date, Banco Desio did not have any subordinated loans due to customers.

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

As at the reporting date, Banco Desio did not have any structured loans due to customers.

### 2.4 Due to customers with specific hedge

At the reference dates, Banco Desio did not have amounts due to customers with specific hedge.

## SECTION 3 - DEBT SECURITIES IN ISSUE - CAPTION 30

### 3.1 Debt securities in issue: breakdown

| Type/amounts | 31.12.2015 | | | | 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 | 1,572,912 | | 1,571,195 | | 1,839,785 | | 1,837,178 | |
| *1.1 Structured* | *14,771* | | *14,771* | | *51,739* | | *51,739* | |
| *1.2 other* | *1,558,141* | | *1,556,424* | | *1,788,046* | | *1,785,439* | |
| 2. Other securities | 52,775 | | | 52,775 | 115,236 | | | 115,236 |
| *2.1 structured* | | | | | | | | |
| *2.2 other* | *52,775* | | | *52,775* | *115,236* | | | *115,236* |
| **Total** | **1,625,687** | | **1,571,195** | **52,775** | **1,955,021** | | **1,837,178** | **115,236** |

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

During the year, new debt securities were issued of Euro 302,601 thousand, while debt securities redeemed on maturity amounted to Euro 568,732 thousand. Again, during the year, repurchases were made of securities for Euro 152,925 thousand and which were subsequently reissued for Euro 131,163 thousand.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 51,763 thousand were issued with a short term maturity and Euro 1,012 thousand were issued with a longer than short term maturity.

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

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

| Bonds | Issue date | Maturity date | Currency | Interest rate | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|
| ISIN code IT0004654866 | 01.12.2010 | 01.12.2015 | EUR | FR | | 12,998 |
| ISIN code IT0004780182 | 29.12.2011 | 29.12.2016 | EUR | FR | 12,910 | 13,001 |
| ISIN code IT0004815855 | 15.06.2012 | 15.06.2017 | EUR | FR | 12,895 | 13,010 |
| ISIN code IT0004921166 | 03.06.2013 | 03.06.2018 | EUR | FR | 12,942 | 13,027 |
| ISIN code IT0005038085 | 28.08.2014 | 28.08.2019 | EUR | FR | 50,397 | 50,441 |
| ISIN code IT0005070179 | 22.12.2014 | 22.12.2019 | EUR | FR | 49,986 | 50,024 |
| ISIN code IT0005107880 | 28.05.2015 | 28.05.2022 | EUR | FR | 79,894 | |
| ISIN code IT0005136335 | 16.10.2015 | 16.10.2021 | EUR | FR | 50,199 | |
| **Total** | | | | | **269,225** | **152,501** |

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

- duration: 7 years for the security issued with ISIN no. IT0005107880 and 6 years for the security issued with ISIN no. IT0005136335;
- 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.

**3.3 Debt securities in issue with specific hedge**

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Securities with specific fair value hedge: | 59,559 | 81,433 |
| a) interest rate risk | 59,559 | 81,433 |
| b) exchange rate risk | | |
| c) other risks | | |
| 2. Securities with specific cash flow hedge: | 130,093 | |
| a) interest rate risk | 130,093 | |
| b) exchange rate risk | | |
| c) other | | |

## SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - CAPTION 40

### 4.1 Financial liabilities held for trading: breakdown

| Type of transaction/Amounts | 31.12.2015 | | | | | 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 | | | | 2,022 | | | | | 2,084 | |
| 1.1 For trading | | | | 2,022 | | | | | 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** | | | | **2,022** | | | | | **2,084** | |
| **Total A+B** | | | | **2,022** | | | | | **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

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

At the reference dates, Banco Desio did not have subordinated financial liabilities held for trading.

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

As at the reporting date, Banco Desio's financial liabilities held for trading did not include any structured loans.

## SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 50

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

| Type of transaction/Amounts | 31.12.2015 | | | | | 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** | **22,050** | | **22,828** | | **23,117** | **22,850** | | **23,626** | | |
| 3.1 Structured | 22,050 | | 22,828 | | 23,117 | 22,850 | | 23,626 | | |
| 3.2 Other | | | | | | | | | | |
| **Total** | **22,050** | | **22,828** | | **23,117** | **22,850** | | **23,626** | | |

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

The table shows financial liabilities that consist of bonds, which have been measured at fair value and which have been systematically hedged by the use of derivatives.

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

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

## SECTION 6 - HEDGING DERIVATIVES - CAPTION 60

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

| | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Fair Value* | | | NV | *Fair Value* | | | NV |
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | **19,924** | | **180,000** | | | | |
| 1) Fair value | | 19,494 | | 100,000 | | | | |
| 2) Cash flows | | 430 | | 80,000 | | | | |
| 3) Foreign investments | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **19,924** | | **180,000** | | | | |

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

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

| Operation/Type of hedge | Fair Value | | | | | | Cash flows | | Foreign investments |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | | | |
| | Interest rate risk | Exchange rate risk | Credit risk | Price risk | Other risks | Generic | Specific | Generic | |
| 1. Financial assets available for sale | 19,494 | | | | | | | | |
| 2. Loans and receivables | | | | | | | | | |
| 3. Financial assets held to maturity | | | | | | | | | |
| 4. Portfolio | | | | | | | | | |
| 5. Other transactions | | | | | | | | | |
| **Total assets** | **19,494** | | | | | | | | |
| 1. Financial liabilities | | | | | | | | 430 | |
| 2. Portfolio | | | | | | | | | |
| **Total liabilities** | | | | | | | | **430** | |
| 1. Expected transactions | | | | | | | | | |
| 2. Financial assets and liabilities portfolio | | | | | | | | | |

## SECTION 7 - ADJUSTMENT TO FINANCIAL LIABILITIES WITH GENERIC HEDGES - CAPTION 70

At the reference dates, Banco Desio did not have financial liabilities with generic hedges.

## SECTION 8 - TAX LIABILITIES - CAPTION 80

The breakdown and changes in the year of tax liabilities are disclosed in Section 13, Assets, together with information on deferred tax assets.

## SECTION 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - CAPTION 90

The composition of liabilities associated with assets held for sale is detailed in Section 14 of Assets.

## SECTION 10 - OTHER LIABILITIES - CAPTION 100

### 10.1 Other liabilities: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due to tax authorities | 1,287 | 246 |
| Amounts payable to tax authorities on behalf of third parties | 14,330 | 16,779 |
| Social security contributions to be paid | 4,421 | 4,986 |
| Dividends due to shareholders | 5 | 8 |
| Suppliers | 11,826 | 9,572 |
| Amounts available to customers | 12,097 | 10,189 |
| Interest and dues to be credited | 86 | 593 |
| Payments against bill instructions | 423 | 237 |
| Early payments on loans not yet due | 111 | 123 |
| Items being processed and in transit w ith branches | 40,551 | 44,901 |
| Currency differences on portfolio transactions | 46,238 | 23,799 |
| Due to personnel | 1,846 | 3,778 |
| Sundry creditors | 5,522 | 11,155 |
| Provisions for guarantees given and commitments | 1,072 | 787 |
| Accrued expenses | 1,122 | 1,282 |
| **Total** | **140,938** | **128,435** |

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main component of the above cluster relates to bank transfers being processed of Euro 32,614 thousand (Euro 38,736 thousand at the prior year end).

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

"Due to personnel" includes the payable relating to early retirement incentives of Euro 66 thousand (Euro 2,666 thousand last year) and the year end balance of the amount due for holiday pay of Euro 1,363 thousand (Euro 1,112 thousand at the prior year end), the fair value of bonuses on shares, the settlement of which will take place in cash for Euro 416 thousand.

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for 1,406 thousand euro (3,705 thousand euro last year), creditors for bills withdrawn for 1,068 thousand euro (2,645 thousand euro last year) and bank transfers being processed for 108 thousand euro (933 thousand euro last year).

## SECTION 11 - PROVISION FOR TERMINATION INDEMNITIES - CAPTION 110

### 11.1 Provision for termination indemnities: changes during the year

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Opening balance** | **24,342** | **23,349** |
| **B. Increases** | **363** | **3,442** |
| B.1 Provision for the year | 363 | 465 |
| B.2 Other changes | | 2,977 |
| **C. Decreases** | **3,594** | **2,539** |
| C.1 Payments made | 2,665 | 1,815 |
| C.2 Other changes | 929 | 724 |
| **D. Closing balance** | **21,111** | **24,342** |

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

The effective payable accrued at year-end to employees in place at the Bank, with inclusion of active employees at the branches subject of future transfer, amounts to Euro 20,611 thousand (Euro 23,611 thousand of last year).

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 7,872 thousand (Euro 7,820 thousand last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The caption "C.2 Other changes" reflects the impact of discounting the provision for statutory purposes.

### 11.2 Other information

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

***Demographic assumptions***

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities have been determined by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

***Economic-financial assumptions***

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

- technical discounting rate 2.00%
- annual inflation rate 1.75%
- total annual income growth rate 2.75%
- termination indemnity annual growth rate 2.81%.

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

## SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - CAPTION 120

### 12.1 Provisions for risks and charges: breakdown

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Pensions and similar commitments | | |
| 2. Other provisions for risks and charges | 31,926 | 31,722 |
| *2.1 legal disputes* | *12,652* | *10,076* |
| *2.2 personnel expenses* | *18,151* | *18,750* |
| *2.3 other* | *1,123* | *2,896* |
| **Total** | **31,926** | **31,722** |

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 10,621 thousand relates to legal disputes (Euro 8,895 thousand at the prior year end) and Euro 2,031 thousand relates to bankruptcy clawback actions (Euro 1,180 thousand at the prior year end). The caption "personnel expenses" includes: the provision to the Solidarity Fund of 8,218 thousand euro (11,183 thousand euro last year); provision for bonuses of Euro 5,290 thousand (Euro 3,073 thousand at the prior year end); provisions for long-service bonuses and additional holidays of Euro 2,223 thousand (Euro 2,288 thousand at the prior year end).

The caption "other" includes provisions for charges pertaining to other operating risks, including those relating to tax disputes. The contribution to the Solidarity Fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara introduced by the 2016 Stability Law for Euro 466 thousand).

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

### 12.2 Provisions for risks and charges: changes during the year

| | Pensions and similar commitments | Other provisions | Total |
|---|---|---|---|
| **A. Opening balance** | | **31,722** | **31,722** |
| **B. Increases** | | **9,163** | **9,163** |
| B.1 Provision for the year | | 8,949 | 8,949 |
| B.2 Changes due to the passage of time | | 214 | 214 |
| B.3 Changes due to changes in the discount rate | | | |
| B.4 Other changes | | | |
| **C. Decreases** | | **-8,959** | **-8,959** |
| C.1 Utilisations during the year | | -8,959 | -8,959 |
| C.2 Changes due to changes in the discount rate | | | |
| C.3 Other changes | | | |
| **D. Closing balance** | | **31,926** | **31,926** |

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

- to the bonus fund of 4,262 thousand euro,
- other employee related provisions of Euro 200 thousand,
- charges for legal disputes and bankruptcy of Euro 2,563 thousand,
- charges for bankruptcy clawback actions of Euro 1,133 thousand.
- solidarity fund for 466 thousand euro.

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

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, the utilisations relate to payments made with respect to legal disputes and bankruptcy clawback actions of Euro 1,103 thousand, to personnel costs of Euro 5,242 thousand and to other operating risks of Euro 544 thousand.

### 12.3 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

### 12.4 Provisions for risks and charges: other provisions

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| legal disputes | 12,652 | 10,076 |
| other operating risks | 1,123 | 2,896 |
| solidarity fund | 8,218 | 11,183 |
| long-service bonuses and additional holidays | 2,224 | 2,195 |
| other employee related provisions | 7,709 | 5,372 |
| **Total** | **31,926** | **31,722** |

## SECTION 13 - REDEEMABLE SHARES - CAPTION 140

Banco Desio does not have this type of shares.

## SECTION 14 - SHAREHOLDERS' EQUITY - CAPTIONS 130, 150, 160, 170, 180, 190 AND 200

### 14.1 "Share capital" and "Treasury shares": breakdown

| | 31.12.2015 | 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 di Desio e della Brianza S.p.A., fully subscribed and paid, consists of:

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

### 14.2 Share capital - Number of shares: changes in the year

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

### 14.3 Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

## 14.4 Revenue reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

| | 31.12.2015 | Possible uses | Unrestricted portion | Uses in the last three years | |
|---|---|---|---|---|---|
| | | | | Loss coverage | Other uses |
| Share capital | 67,705 | | | | |
| Share premium reserve | 16,145 | A,B,C [1] | 16,145 | | |
| Legal reserve | 84,504 | A, B [2] | | | |
| Statutory reserve | 489,417 | A,B,C | 489,417 | | |
| Stock grant/option plan reserve | - | A. | | | |
| Merger surplus/deficit reserve | -27 | | | | |
| Reserves for intercompany transactions | 8,928 | A, B [6] | | | |
| Valuation reserves: | | | | | |
| - 3. Financial assets available for sale | 424 | -3 | | | |
| - actuarial measurement of provision for termination indemnities | -760 | -3 | | | |
| - Special revaluation law s | 22,199 | A,B [4] | | | |
| - revaluation reserve Law 413/1991 | 697 | A,B,C | | | |
| - Cash-flow hedges | 63 | | | | |
| IAS transition reserve | 121,936 | -5 | | | |
| Other | 3,370 | A,B,C | 3,370 | | |
| **Total** | **814,601** | | **508,932** | | |

Key: A = increase in share capital B = for loss coverage C = for distribution
(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable
(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital
(3) Restricted reserve as per art. 6 of Legislative Decree 38/2005
(4) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as required by the "IAS decree"
(5) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005
(6) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection with the application of OP1.

## 14.5 Equity instruments: breakdown and changes in the year

In Banco Desio there are no types of this category.

## 14.6 Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

## OTHER INFORMATION

### 1. Guarantees given and commitments

| Transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1) Financial guarantees: | 1,698 | 13,553 |
| a) Banks | 163 | 9,567 |
| b) Customers | 1,535 | 3,986 |
| 2) Commercial guarantees: | 220,851 | 251,094 |
| a) Banks | 14,330 | 6,157 |
| b) Customers | 206,521 | 244,937 |
| 3) Irrevocable commitments to disburse loans | 52,843 | 119,196 |
| a) Banks | 3,925 | 21,460 |
| i) certain to be called on | 399 | 18,127 |
| ii) not certain to be called on | 3,526 | 3,333 |
| b) Customers | 48,918 | 97,736 |
| i) certain to be called on | 1,200 | 5,525 |
| ii) not certain to be called on | 47,718 | 92,211 |
| 4) Commitments underlying credit derivatives: sale of protection | | 25,000 |
| 5) Assets pledged to guarantee third-party commitments | | 1,556 |
| 6) Other commitments | | |
| **Total** | **275,392** | **410,399** |

### 2. Assets pledged as guarantees for own liabilities and commitments

| Portfolios | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Financial assets held for trading | | |
| 2. Financial assets designated at fair value through profit and loss | | |
| 3. Financial assets available for sale | 827,250 | 1,027,351 |
| 4. Financial assets held to maturity | | |
| 5. Due from banks | | |
| 6. Loans to customers | | |
| 7. Property, plant and equipment | | |

### 3. Information on operating leases

This is not foreseen in Banco Desio.

## 4. Administration and trading on behalf of third parties

| Type of services | 31.12.2015 |
|---|---|
| **1. Execution of orders on behalf of customers** | |
| a) purchases | |
| 1. Settled | 52,789 |
| 2. Unsettled | 607 |
| b) sales | |
| 1. Settled | 46,340 |
| 2. Unsettled | 985 |
| **2. Asset management** | |
| a) Individual | 567,171 |
| b) Collective | 554,977 |
| **3. Custody and administration of securities** | |
| a) third-party securities on deposit as custodian bank (excluding portfolio management schemes) | |
| 1. securities issued by the reporting bank | |
| 2. other securities | |
| b) Third-party securities held on deposit (excluding portfolio management schemes): other | |
| 1. securities issued by the reporting bank | 1,624,528 |
| 2. other securities | 7,143,365 |
| c) third-party securities deposited with third parties | 8,696,388 |
| d) portfolio securities deposited with third parties | 1,507,820 |
| **4. Other transactions** | |

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

| Technical forms | Gross amount of financial assets (a) | Amount of financial liabilities offset in the financial statements (b) | Net amount of financial assets reported in the financial statements (c = a-b) | Related amounts not subject to offsetting in the financial statements | | Net amount 31.12.2015 (f=c-d-e) | Net amount 31.12.2014 |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Deposits of cash received as collateral (e) | | |
| 1. Derivatives | 2,877 | | 2,877 | 711 | 1,610 | 556 | 1,733 |
| 2. Repurchase agreements | | | | | | | |
| 3. Securities lending | | | | | | | |
| 4. Other | | | | | | | |
| **Total 31.12.2015** | **2,877** | | **2,877** | **711** | **1,610** | **556** | |
| **Total 31.12.2014** | **4,305** | | **4,305** | **182** | **2,390** | | **1,733** |

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

| Technical forms | Gross amount of financial assets (a) | Amount of financial liabilities offset in the financial statements (b) | Net amount of financial assets reported in the financial statements (c = a-b) | Related amounts not subject to offsetting in the financial statements | | Net amount 31.12.2015 (f=c-d-e) | Net amount 31.12.2014 |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Deposits of cash received as collateral (e) | | |
| 1. Derivatives | 19,946 | | 19,946 | 711 | 18,850 | 385 | |
| 2. Repurchase agreements | | | | | | | |
| 3. Securities lending | | | | | | | |
| 4. Other | | | | | | | |
| **Total 31.12.2015** | **19,946** | | **19,946** | **711** | **18,850** | **385** | |
| **Total 31.12.2014** | **182** | | **182** | **182** | | | **182** |

Tables 5 and 6 show the positive fair values (Table 5 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they provide mechanisms to mitigate the risk of counterparty default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

– the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments";
– the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".

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

# PART C - INFORMATION ON THE INCOME STATEMENT

## SECTION 1 - INTEREST – CAPTIONS 10 AND 20

### 1.1 Interest and similar income: breakdown

| Captions/Technical forms | Debt securities | Loans | Other transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | | | 588 | 588 | 617 |
| 2. Financial assets available for sale | 10,593 | | | 10,593 | 18,874 |
| 3. Financial assets held to maturity | | | | | 619 |
| 4. Due from banks | 258 | 849 | | 1,107 | 2,234 |
| 5. Loans to customers | | 214,211 | | 214,211 | 225,346 |
| 6. Financial assets designated at fair value through profit and loss | | | | | |
| 7. Hedging derivatives | | | 735 | 735 | 2,458 |
| 8. Other assets | | | 31 | 31 | 5 |
| **Total** | **10,851** | **215,060** | **1,354** | **227,265** | **250,153** |

The figure at 31 December 2015 includes the contribution of the business contributed to Banca Popolare di Spoleto S.p.A. for the first quarter of 11,182 thousand euro.

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

Interests on "Loans to customers" are recognised net of default interests accrued in the year on non-performing loans, since these are only recorded in the financial statements when collected. The interests in question amount to Euro 3,968 thousand (Euro 5,792 thousand last year).

Conversely, the caption includes default interests collected in the year of Euro 444 thousand (Euro 340 thousand last year), of which Euro 396 thousand relates to prior years (Euro 281 thousand last year).

The caption includes interests payable to Group companies of Euro 14,045 thousand (Euro 14,612 thousand last year), of which:

- Euro 13,414 thousand on loans and receivables from Fides S.p.A. (14,335 thousand euro last year);
- Euro 631 thousand of repurchase agreements and loans and receivables from Banca Popolare di Spoleto S.p.A. (277 thousand euro last year)

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

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Positive differentials on hedging transactions | 2,241 | 3,415 |
| B. Negative differentials on hedging transactions | -1,506 | -957 |
| **C. Balance (A-B)** | **735** | **2,458** |

### 1.3 Interest and similar income: other information

#### 1.3.1 Interest income on financial assets in foreign currency

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Interest income on financial assets in foreign currency | 1,122 | 1,031 |

**1.3.2 Interest income from finance leases**

Total interests recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 10,320 thousand (Euro 13,005 thousand last year); of this, Euro 10,209 thousand relates to index-linked contracts, of which Euro 502 thousand relates to leaseback agreements (in 2014 Euro 12,245 thousand related to index-linked contracts, of which Euro 644 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 77,400 thousand, of which Euro 5,452 thousand relates to leaseback agreements (last year Euro 95,289 thousand and Euro 6,475 thousand, respectively).

### 1.4 Interest and similar expense: breakdown

| Captions/Technical forms | Payables | Securities | Other transactions | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|
| 1. Due to central banks | -845 | | | -845 | -825 |
| 2. Due to banks | -370 | | | -370 | -13 |
| 3. Due to customers | -21,302 | | | -21,302 | -37,726 |
| 4. Debt securities in issue | | -39,676 | | -39,676 | -50,851 |
| 5. Financial liabilities held for trading | -40 | | | -40 | -11 |
| 6. Financial liabilities designated at fair value through profit and loss | | -695 | | -695 | -863 |
| 7. Other liabilities and provisions | | | -34 | -34 | -5 |
| 8. Hedging derivatives | | | | | |
| **Total** | **-22,557** | **-40,371** | **-34** | **-62,962** | **-90,294** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 2,331 thousand euro.

The caption includes interests payable to Group companies of Euro 77 thousand (Euro 26 thousand last year).

### 1.5 Interest and similar expense: differentials on hedging transactions

Details are provided at point 1.2 above.

### 1.6 Interest and similar expense: other information

**1.6.1 Interest expense on foreign currency liabilities**

| Captions | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Interests expense on foreign currency financial liabilities | -122 | -126 |

**1.6.2 Interest expense on finance leases**

Banco Desio is not party to any finance lease agreements that generate interests expense.

## SECTION 2 – COMMISSION - CAPTIONS 40 AND 50

### 2.1 Commission income: breakdown

| Type of service/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) guarantees given | 2,452 | 2,086 |
| b) credit derivatives | | |
| c) management, brokerage and consulting services: | 40,086 | 31,973 |
| 1. trading in financial instruments | | |
| 2. trading in foreign exchange | 1,524 | 1,373 |
| 3. asset management | 4,229 | 3,312 |
| 3.1. individual | 3,738 | 2,783 |
| 3.2. collective | 491 | 529 |
| 4. custody and administration of securities | 1,296 | 1,328 |
| 5. custodian bank | | |
| 6. placement of securities | 15,477 | 8,888 |
| 7. order taking | 7,084 | 7,741 |
| 8. advisory services | | |
| 8.1 regarding investments | | |
| 8.2 regarding financial structuring | | |
| 9. distribution of third-party services | 10,476 | 9,331 |
| 9.1. asset management | 367 | 78 |
| 9.1.1. individual | 367 | 78 |
| 9.1.2. collective | | |
| 9.2 insurance products | 8,707 | 9,006 |
| 9.3 other products | 1,402 | 247 |
| d) collection and payment services | 19,444 | 17,215 |
| e) servicing related to securitisation | | |
| f) services for factoring transactions | 155 | 170 |
| g) tax collection services | | |
| h) management of multilateral trading systems | | |
| i) maintenance and management of current accounts | 48,459 | 45,922 |
| j) other services | 5,498 | 6,024 |
| **Total** | **116,094** | **103,390** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 4,258 thousand euro.

Commission income from Group companies amounts to Euro 2,354 thousand (Euro 1,868 thousand last year).

Commissions for "other services" include recoveries of expenses on customer collection and payments for Euro 832 thousand, fees for the Internet banking service of Euro 684 thousand and recoveries of expenses on mortgage instalments for Euro 842 thousand.

### 2.2 Fee and commission income: product and service distribution channels

| Channels/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **a) at own branches** | | |
| 1. portfolio management | 4,229 | 3,312 |
| 2. placement of securities | 15,477 | 8,888 |
| 3. distribution of third-party services and products | 10,476 | 9,331 |
| **b) doorstep banking** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. distribution of third-party services and products | | |
| **c) other distribution channels** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. distribution of third-party services and products | | |

### 2.3 Commission expense: breakdown

| Services/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) guarantees received | -308 | -160 |
| b) credit derivatives | | |
| c) management and brokerage services | -1,392 | -1,269 |
| 1. trading in financial instruments | -52 | -53 |
| 2. trading in foreign exchange | | |
| 3. asset management: | | |
| 3.1 own portfolio | | |
| 3.2 third-party portfolio | | |
| 4. custody and administration of securities | -1,281 | -1,214 |
| 5. placement of financial instruments | -59 | -2 |
| 6. offer of securities, financial products and services through financial promoters | | |
| d) collection and payment services | -2,369 | -2,435 |
| e) other services | -1,027 | -1,059 |
| **Total** | **-5,096** | **-4,923** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 38 thousand euro.

Commissions for "other services" include fees for the presentation of customers and loans granted to them for 693 thousand euro.

## SECTION 3 - DIVIDENDS AND SIMILAR INCOME - CAPTION 70

### 3.1 Dividends and similar income: breakdown

| Caption/Income | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Dividends | Income from UCITS units | Dividends | Income from UCITS units |
| A. Financial assets held for trading | | | | |
| B. Financial assets available for sale | 278 | | 114 | |
| C. Financial assets designated at fair value through profit and loss | | | | |
| D. Equity investments | 3,855 | | 3,060 | |
| **Total** | **4,133** | | **3,174** | |

In addition to the amounts of dividends received from subsidiaries and associates, the table shows dividend income from non-controlling interests classified as financial assets available for sale.

Dividend income from equity investments, as per "caption D", relates to:

| | | |
|---|---|---|
| Chiara Assicurazioni S.p.A. | Euro 722 thousand | (formerly 604 thousand euro) |
| Rovere Société de Gestion | Euro 634 thousand | (formerly Euro 656 thousand) |
| Fides S.p.A. (*) | Euro 2,500 thousand | (formerly 1,800 thousand euro) |

## SECTION 4 - NET TRADING INCOME - CAPTION 80

### 4.1 Net trading income: breakdown

| Transactions/Income components | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | | **135** | | **-11** | **124** |
| 1.1 Debt securities | | 8 | | -7 | 1 |
| 1.2 Equity instruments | | 1 | | -4 | -3 |
| 1.3 UCITS units | | | | | |
| 1.4 Loans | | | | | |
| 1.5 Other | | 126 | | | 126 |
| **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 | 3,340 |
| **4. Derivatives** | **3** | **2** | **-83** | **-5** | **-180** |
| 4.1 Financial derivatives: | 3 | 2 | -83 | -5 | -83 |
| - On debt securities and interest rates | 3 | | -65 | | -62 |
| - On equities and equity indices | | 2 | -18 | -5 | -21 |
| - On currency and gold | x | x | x | x | -97 |
| - Other | | | | | |
| 4.2 Credit derivatives | | | | | |
| **Total** | **3** | **137** | **-83** | **-16** | **3,284** |

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted and for which the measurement results are shown in Section 7.

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

## SECTION 5 - NET HEDGING GAINS (LOSSES) - CAPTION 90

### 5.1 Net hedging gains (losses): breakdown

| Income items/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Income relating to: | | |
| A.1 Fair value hedges | 4,035 | 152 |
| A.2 Hedged financial assets (fair value) | 288 | |
| A.3 Hedged financial liabilities (fair value) | 1,208 | 1,849 |
| A.4 Cash flow hedges | 3 | |
| A.5 Foreign currency assets and liabilities | | |
| **Total income from hedging activity (A)** | **5,534** | **2,001** |
| B. Charges relating to: | | |
| B.1 Fair value hedges | -1,682 | -2,301 |
| B.2 Hedged financial assets (fair value) | | -706 |
| B.3 Hedged financial liabilities (fair value) | -21 | -35 |
| B.4 Cash flow hedges | | |
| B.5 Foreign currency assets and liabilities | -3,662 | |
| **Total charges from hedging activity (B)** | **-5,365** | **-3,042** |
| **C. Net hedging gains (losses) (A-B)** | **169** | **-1,041** |

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

## SECTION 6 - GAINS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

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

| Caption/Income items | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Net result | Gains | Losses | Net result |
| **Financial assets** | | | | | | |
| 1. Due from banks | | | | | | |
| 2. Loans to customers | 24 | -473 | -449 | 61 | -1,695 | -1,634 |
| 3. Financial assets available for sale | 29,628 | -983 | 28,645 | 54,659 | -3,409 | 51,250 |
| 3.1 Debt securities | 27,864 | -848 | 27,016 | 54,653 | -3,379 | 51,274 |
| 3.2 Equity instruments | 777 | | 777 | | | |
| 3.3 UCITS units | 987 | -135 | 852 | 6 | -30 | -24 |
| 3.4 Loans | | | | | | |
| 4. Financial assets held to maturity | | | | 12,428 | | 12,428 |
| **Total assets** | **29,652** | **-1,456** | **28,196** | **67,148** | **-5,104** | **62,044** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | | | | | | |
| 2. Due to customers | | | | | 1 | 1 |
| 3. Debt securities in issue | 78 | -1,824 | -1,746 | 36 | -2,058 | -2,022 |
| **Total liabilities** | **78** | **-1,824** | **-1,746** | **36** | **-2,057** | **-2,021** |

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 doubtful 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.

## SECTION 7 - NET RESULTS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE - CAPTION 110

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

| Transactions/Income components | Capital gains (A) | Gains on disposal (B) | Capital losses (C) | Losses on disposal (D) | Net result [(A+B) - (C+D)] 31.12.2015 |
|---|---|---|---|---|---|
| **1. Financial assets** | | | | | |
| 1.1 Debt securities | | | | | |
| 1.2 Equity instruments | | | | | |
| 1.3 UCITS units | | | | | |
| 1.4 Loans | | | | | |
| **2. Financial liabilities** | **139** | **11** | | **-10** | **140** |
| 2.1 Debt securities | 139 | 11 | | -10 | 140 |
| 2.2 Due to banks | | | | | |
| 2.3 Due to customers | | | | | |
| **3. Financial assets and liabilities in foreign currency: exchange differences** | | | | | |
| **4. Derivatives** | **160** | **24** | **-545** | | **-361** |
| **Total** | **299** | **35** | **-545** | **-10** | **-221** |

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

They also include the net gains (losses) from trading in our bonds.

## SECTION 8 - NET IMPAIRMENT WRITE-DOWNS/WRITE-BACKS - CAPTION 130

### 8.1 Net impairment adjustments to loans and advances: breakdown

| Transactions/Income components | Write-downs (1) | | | Write-backs (2) | | | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Write-offs | Other | | A | B | A | B | | |
| A. Due from banks | | | | | | | | | |
| - Loans | | | | | | | | | |
| - Debt securities | | | | | | | | | |
| B. Loans to customers | | | | | | | | | |
| Non-performing loans acquired | | | | | | | | | |
| - Loans | | | | | | | | | |
| - Debt securities | | | | | | | | | |
| Other receivables | | | | | | | | | |
| - Loans | -3,305 | -141,181 | -26 | 12,512 | 38,856 | | 612 | -92,532 | -125,629 |
| - Debt securities | | | | | | | | | |
| **C. Total** | **-3,305** | **-141,181** | **-26** | **12,512** | **38,856** | | **612** | **-92,532** | **-125,629** |

**Key**
A = Interest
B = Other write-backs

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

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 4,615 thousand euro.

As regards "Write-downs" the figure in the "Write-offs" column relates to losses of Euro 3,305 thousand (Euro 3,882 thousand last year) from the write-off of doubtful loans.

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

- doubtful loans Euro 86,889 thousand (formerly Euro 95,763 thousand)
- unlikely-to-pay loans Euro 50,698 thousand (formerly 50,453 thousand euro)
- past due non-performing loans Euro 3,592 thousand (formerly Euro 3,235 thousand)

Portfolio" write-downs, which amount to Euro 26 thousand (Euro 198 thousand last year), relate to the performing loans portfolio.

Specific "interest" write-backs relate to the write-back of interest at the assumed discount rates on the capital element which is deemed to be recoverable, of which Euro 9,425 thousand relates to doubtful loans (Euro 10,638 thousand last year) and 2,817 to "unlikely to pay" loans (Euro 2,261 thousand last year).

"Other" specific write-backs relate to:

| | | |
|---|---|---|
| – doubtful loans amortised in previous years | 1,831 thousand euro | (formerly 1,612 thousand euro) |
| – collections of loans previously written down | 14,609 thousand euro | (formerly 6,320 thousand euro) |
| – measurement write-backs | 22,416 thousand euro | (formerly 4,200 thousand euro) |

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

At the reference dates, there are no net impairment adjustments to financial assets available for sale.

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

There were no net impairment adjustments to financial assets held to maturity in the years ended 31 December 2015 and 2014.

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

| Transactions/Income components | Write-downs (1) | | | Write-backs (2) | | | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Write-offs | Other | | A | B | A | B | | |
| A. Guarantees given | | -318 | -260 | | 166 | | | -412 | 546 |
| B. Credit derivatives | | | | | | | | | |
| C. Commitments to disburse funds | | | | | | | | | |
| D. Other transactions | | | | | | | | | |
| **E. Total** | | **-318** | **-260** | | **166** | | | **-412** | **546** |

**Key:**
A = Interest
B = Other write-backs

This table includes impairment write-downs/write-backs concerning guarantees given in relation to losses that have already occurred and expected to occur on enforcement of the guarantees.

## SECTION 9 - ADMINISTRATIVE COSTS - CAPTION 150

### 9.1 Payroll costs: breakdown

| Type of expense/Sectors | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1) Employees | -116,146 | -110,896 |
| a) Wages and salaries | -77,854 | -75,793 |
| b) Social security charges | -20,731 | -19,615 |
| c) Termination indemnities | | |
| d) Pension expenses | | |
| e) Provision for termination indemnities | -363 | 130 |
| f) Provision for post-retirement benefits and similar commitments: | | |
| - defined contribution | | |
| - defined benefit | | |
| g) Payments to external supplementary pension funds: | -7,872 | -7,820 |
| - defined contribution | -7,872 | -7,820 |
| - defined benefit | | |
| h) Equity-based payments | -172 | -302 |
| i) Other personnel benefits | -9,154 | -7,496 |
| 2) Other active employees | -492 | -441 |
| 3) Directors and auditors | -3,536 | -4,041 |
| 4) Retired personnel | | |
| 5) Recovery of cost of employees seconded to other companies | 463 | 200 |
| 6) Reimbursement of cost of third-party employees seconded to the Company | -2,542 | |
| **Total** | **-122,253** | **-115,178** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 3,370 thousand euro.

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

Details of caption "1.i) – other employee benefits" are provided in table 9.4 below.

Caption "6. Reimbursement of cost of third-party employees seconded to the Company" refers to employees of Banca Popolare di Spoleto seconded to Banco di Desio in connection with the operational concentration at the Parent Company.

### 9.2 Average number of employees by level

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **1) Employees** | 1,453 | 1,686 |
| a) managers | 23 | 23 |
| b) middle managers | 772 | 873 |
| c) other employees | 658 | 790 |
| **2) Other personnel** | **5** | **10** |

### 9.3 Defined post-employment benefit obligations: costs and revenues

There are none at the reporting date.

### 9.4 Other personnel benefits

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provision for sundry charges | -5,960 | -3,837 |
| Contributions to healthcare fund | -1,393 | -1,155 |
| Training and instruction costs | 30 | -903 |
| Rent expense of property used by employees | -264 | -121 |
| Redundancy incentives | 345 | 560 |
| Other | -1,912 | -2,040 |
| **Total** | **-9,154** | **-7,496** |

The main components of the "Other" caption include company canteen costs of Euro 1,354 thousand (Euro 1,261 thousand last year) and costs relating to insurance premiums of Euro 281 thousand (Euro 262 thousand last year).

### 9.5 Other administrative costs: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Indirect taxes and duties: | | |
| - stamp duty | -18,504 | -18,279 |
| - Other | -3,742 | -4,120 |
| Other costs: | | |
| - IT expenses | -9,518 | -8,936 |
| - Lease of property and other assets | -9,131 | -7,323 |
| - Maintenance of buildings, furniture and equipment | (3,252) | -3,562 |
| - Post office and telegraph | -1,538 | -1,613 |
| - Telephone and data transmission | -3,864 | -3,817 |
| - Electricity, heating, water | (3,021) | -3,101 |
| - Cleaning services | -875 | -846 |
| - Printed matter, stationery and consumables | (598) | -500 |
| - Transport costs | -704 | -743 |
| - Surveillance and security | -1,113 | -1,064 |
| - Advertising | -1,682 | -1,042 |
| - Information and surveys | -730 | -649 |
| - Insurance premiums | -903 | -920 |
| - Legal fees | -5,255 | -5,853 |
| - Professional consulting fees | -6,093 | -5,642 |
| - Various contributions and donations | -138 | -118 |
| - Sundry expenses | -13,411 | -5,298 |
| **Total** | **-84,072** | **-73,426** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 1,805 thousand euro.

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for 7,968 thousand euro, of which:

- Euro 1,751 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for 2015;
- Euro 5,256 thousand for the extraordinary contribution to the Single Resolution Mechanism as a result of the resolution measures taken by the Bank of Italy after approval of Legislative Decree 180/2015 by the Government;
- Euro 961 thousand for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for 2015.

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

| Type of services | Party which provided the service | Fees (in thousands of euro) |
|---|---|---|
| Audit | Deloitte & Touche S.p.A. | 191 |
| Attestation services | Deloitte & Touche S.p.A. | 19 |
| Other services: | | |
| Review of translation of financial reports | Deloitte & Touche S.p.A. | 59 |
| Methodological support for the preparation of the Asset Quality Review and Risk Management | Deloitte & Touche S.p.A./ Deloitte Consulting S.r.l. | 163 |
| Methodological support for the EBA Business Model Assessment | Deloitte ERS S.r.l. | 29 |
| Methodological support for the migration of branches | Deloitte Consulting S.r.l. | 168 |
| **Total** | | **629** |

## SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 160

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

| | Provision | Utilisations | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| Charges for legal disputes | -4,572 | 843 | -3,729 | -1,421 |
| Other | -466 | 543 | 77 | -992 |
| **Total** | **-5,038** | **1,386** | **-3,652** | **-2,413** |

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

Other charges include provisions for other operating risks, inclusive of tax disputes. "Other" also includes the contribution to the Solidarity Fund for the relief of investors who subscribed subordinated bonds with Banca Etruria, Banca Marche, Cari Chieti and Cari Ferrara introduced by the 2016 Stability Law for Euro 466 thousand.

## SECTION 11 - NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT - CAPTION 170

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

| Assets/Income items | Depreciation (a) | Impairment adjustments (b) | Write-backs (c) | Net result [(A+B) - (C+D)] 31.12.2015 |
|---|---|---|---|---|
| A. Property, plant and equipment | | | | |
| A.1 Owned | -5,037 | | | -5,037 |
| - for business purposes | -5,022 | | | -5,022 |
| - for investment purposes | -15 | | | -15 |
| A.2 Held under finance leases | | | | |
| - for business purposes | | | | |
| - for investment purposes | | | | |
| **Total** | **-5,037** | | | **-5,037** |

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "11.5 and 11.6 Changes in the year" of Section 11, Assets.

## SECTION 12 - NET ADJUSTMENTS TO INTANGIBLE ASSETS - CAPTION 180

### 12.1 Net adjustments to intangible assets: breakdown

| Assets/Income items | Amortisation (a) | Impairment adjustments (b) | Write-backs (c) | Net result [(A+B) - (C+D)] 31.12.2015 |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Owned | -1,133 | | | -1,133 |
| *- Generated internally* | | | | |
| *- Other* | *-1,133* | | | *-1,133* |
| A.2 Held under finance leases | | | | |
| **Total** | **-1,133** | | | **-1,133** |

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

## SECTION 13 - OTHER OPERATING CHARGES/INCOME - CAPTION 190

### 13.1 Other operating charges: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amortisation of leasehold improvements | -2,025 | -2,173 |
| Losses on disposal of property, plant and equipment | -18 | -50 |
| Charges on non-banking services | -424 | -294 |
| **Total** | **-2,467** | **-2,517** |

"Charges on non-banking services" include:insurance deductibles for robberies of Euro 59 thousand.

### 13.2 Other operating income: breakdown

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Recovery of taxes from third parties | 19,883 | 20,016 |
| Recharge of costs of current accounts and deposits | 8,171 | 6,534 |
| Rental and leasing income | 71 | 49 |
| Other expense recoveries | 7,794 | 2,754 |
| Gains on disposal of property, plant and equipment | 75 | 98 |
| Other | 4,825 | 430 |
| **Total** | **40,819** | **29,881** |

The figure at 31 December 2015 includes the contribution of the business transferred to Banca Popolare di Spoleto S.p.A. for the first quarter of 933 thousand euro.

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 6,137 thousand (4,696 thousand euro at 31 December 2014) and other recoveries for various communications to customers of Euro 1,897 thousand (1,708 thousand euro at 31 December 2014).

“Other expense recoveries” include, in particular, legal expenses relating to various doubtful loans of Euro 5,027 thousand, the recovery of investigation costs relating to various loans of Euro 1,269 thousand, recovery of costs of appraisals in connection with mortgage loans of Euro 386 thousand and the recovery of sundry expenses relating to lease applications of Euro 721 thousand.

As regards the caption "Other" the main component relates to income from service rendered to Group companies for Euro 4,545 thousand (an increase on Euro 219 thousand last year due to the outsourcing contract with Banca Popolare di Spoleto S.p.A.); Also included are recharges of legal dispute costs of Euro 24 thousand.

## SECTION 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - CAPTION 210

### 14.1 Profit (loss) from equity investments: breakdown

| Income item/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Income | 7,857 | 2,585 |
| 1. Revaluations | 7,857 | |
| 2. Gains on disposal | | |
| 3. Write-backs | | 2,585 |
| 4. Other income | | |
| B. Losses | | |
| 1. Write-downs | | |
| 2. Impairment write-downs | | |
| 3. Losses on disposal | | |
| 4. Other charges | | |
| **Net result** | **7,857** | **2,585** |

The “Revaluations” are entirely attributable to the change in the functional currency of the foreign subsidiary CPC on 1 October 2015 from Swiss Francs to Euros, following substantial completion of the liquidation process.

The gain of 7,857 thousand euro refers to the accumulated exchange differences on the value of the investment.

“Writebacks” in the comparison period refer to C.P.C. in liquidation for 2,176 thousand euro and the former subsidiary Brianfid-Lux S.A. for 409 thousand euro, both written down in previous years.

## SECTION 16 - GOODWILL IMPAIRMENT - CAPTION 230

The outcome from impairment testing of goodwill recognised in the financial statements did not require any impairment adjustments to be made.

As regards the method adopted for the performance of the testing, reference should be made to "Section 12 – Intangible assets", Assets.

## SECTION 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 240

### 17.1 Gains (losses) on disposal of investments: breakdown

| Income item/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| A. Property | 2 | 217 |
| - Gains on disposal | 2 | 217 |
| - Losses on disposal | | |
| B. Other assets | | |
| - Gains on disposal | | |
| - Losses on disposal | | |
| **Net result** | **2** | **217** |

Caption "A. Property" refers to gains/losses on the disposal of properties used in operations by the Bank.

## SECTION 18 - INCOME TAXES ON CURRENT OPERATIONS - CAPTION 260

### 18.1 Income taxes on current operations: breakdown

| **Income items/Amounts** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| 1. Current taxes (-) | -21,948 | -34,741 |
| 2. Change in prior period income taxes (+/-) | 1,307 | 125 |
| 3. Reduction in current taxes (+) | | |
| 3. bis Reduction in current taxes for tax credits under Law 214/2011 (+) | | |
| 4. Change in deferred tax assets (+/-) | 10,905 | 23,792 |
| 5. Change in deferred tax liabilities (+/-) | 943 | -1,217 |
| **6. Income taxes for the period (-) ( -1+/-2+3+3bis+/-4+/-5)** | **-8,793** | **-12,041** |

Caption 2. "Change in prior period income taxes" refers mainly to the reimbursement of Euro 1,289 thousand received 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, 2005, 2006 e 2007.

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

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

The change in deferred tax assets and liabilities, referred to in captions 4 and 5, includes the positive effects of:

- 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.

### 18.2 Reconciliation between the theoretical and current tax charge

| | | IRES | | IRAP | |
|---|---|---|---|---|---|
| Result before taxes | | 46,238 | | 46,238 | |
| Costs not deductible for IRAP purposes | | | | 22,931 | |
| Revenue not taxable for IRAP purposes | | | | -21,436 | |
| | Sub total | 46,238 | | 47,733 | |
| **Theoretical tax charge 27.5% IRES - 5.57% IRAP** | | | **-12,715** | | **-2,659** |
| Temporary differences taxable in subsequent years | | -430 | | -37 | |
| Temporary differences deductible in subsequent years | | 38,773 | | 35,104 | |
| Reversal of prior year temporary differences | | -7,519 | | -8,364 | |
| Differences that will not reverse in subsequent years | | -12,204 | | -613 | |
| | Taxable income | 64,858 | | 73,823 | |
| **Current taxes for the year 27.5% IRES - 5.57% IRAP** | | | **-17,836** | | **-4,112** |

The overall actual tax burden, Euro 21,948 thousand, is equal to the sum of caption "1. Current tax" in table 18.1 and under caption "1. Current tax" in table 19.2 (relative to assets/liabilities held for sale).

## SECTION 19 - PROFIT (LOSS) AFTER TAX ON NON-CURRENT ASSETS HELD FOR SALE - CAPTION 280

### 19.1 Profit (loss) after tax on non-current assets/liabilities held for sale: breakdown

| Income item/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Income | | 69,877 |
| 2. Expenses | | -47,762 |
| 3. Result from measurement of non-current assets and associated liabilities | | |
| 4. Gains (losses) on disposal | | |
| 5. Taxation | | -7,957 |
| **Net profit (loss)** | | **14,158** |

The equity investments in Rovere SA and Istifid S.p.A., both classified as non-current assets held for sale, do not represent a major line of business, which is why the Bank did not disclose the result generated by them under "Profit (loss) on non-current assets held for sale".

The comparative figures include costs and revenues generated by the branches that have re-entered the scope of the business unit transferred to Banca Popolare di Spoleto S.p.A. on 1 April 2015.

### 19.2 Details of income taxes relating to non-current assets/liabilities held for sale

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Current taxation (-) | | -7,957 |
| 2. Change in deferred tax assets (+/-) | | |
| 3. Change in deferred tax liabilities (-/+) | | |
| **4. Income taxes for the year (-1+/-2+/-3)** | | **-7,957** |

## SECTION 20 - OTHER INFORMATION

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

## SECTION 21 - EARNINGS PER SHARE

### 21.1 Average number of ordinary shares (fully diluted)

Please refer to the equivalent section in the Consolidated Financial Statements for the information on earnings per share.

### 21.2 Other information

There is no other information to be disclosed.

# PART D - COMPREHENSIVE INCOME

## STATEMENT OF COMPREHENSIVE INCOME

| Captions | 31.12.2015 | | Net amount |
|---|---|---|---|
| | Gross amount | Income taxes | |
| **10. Net profit (loss) for the period** | | | **37,445** |
| **Other elements of income, without reversal to income statement** | | | |
| 20. Property, plant and equipment | | | |
| 30. Intangible assets | | | |
| 40.Defined-benefit pension plans | 929 | -255 | 673 |
| 50. Non-current assets and disposal groups held for sale | | | |
| 60. Portion of the valuation reserves of the equity investments carried at equity | | | |
| **Other elements of income, with reversal to income statement** | | | |
| **70. Foreign investment hedges:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **80.Exchange differences:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **90. Cash-flow hedges:** | **94** | **-31** | **63** |
| a) changes in fair value | 94 | -31 | 63 |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **100. Financial assets available for sale:** | **3,917)** | **1,293** | **-2,624** |
| a) changes in fair value | 736 | -243 | 493 |
| b) reversal to income statement | -4,751 | 1,569 | -3,183 |
| - impairment adjustments | | | |
| - gains/losses on disposal | -4,751 | 1,569 | -3,183 |
| c) other changes | 98 | -33 | 66 |
| **110. Non-current assets and disposal groups held for sale:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| c) other changes | | | |
| **120. Portion of the valuation reserves of the equity investments carried at equity:** | | | |
| a) changes in fair value | | | |
| b) reversal to income statement | | | |
| - impairment adjustments | | | |
| - gains/losses on disposal | | | |
| c) other changes | | | |
| **130. Total other elements of income** | **-2,894** | **1,006** | **-1,888** |
| **140. Total comprehensive income (Captions 10+130)** | | | **35,557** |

# PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

## INTRODUCTION

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

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

The organisational model adopted by the Group envisages that the Risk Management function reports directly to the Board of Directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business.

The Board of Directors of Banco Desio Brianza approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. These documents provide for specific risk indicators with the relevant attention thresholds on an individual legal entity basis.

## SECTION 1 - CREDIT RISK

### Qualitative information

#### 1. General aspects

The lending activity of Banco di Desio e della Brianza S.p.A. 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 Bank's branch network based on credit policies geared primarily to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographical areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. Banco 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.Therefore, 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.

Banco Desio's organisational structure provides adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors has exclusive power to lay down the guidelines that have an impact on the running of the Bank's affairs. As regards internal controls, the Board of Directors approves the strategic direction and policies for risk management, as well as the organisational structure of the Bank.

The Board also verifies that the Chief Executive Officer defines the internal control structure and that the control functions have autonomy within the structure, where particular importance is assumed by the system for delegated powers provided by the Articles of Association and as set out in the Internal Regulation. This consists of an articulated system that involves various bodies and functions and, with respect to operating powers of attorney, delegates specific powers concerning the granting and recovery of loans.

Therefore responsibilities are assigned to the various functions for the assessment and assumption of risks, within the limits established for credit autonomy by the Internal Regulation and with the commercial network's organisational structure.

Under these circumstances:

- the Credit and Loans Department assists General Management in the granting and management of retail loans in order to ensure a careful and informed assumption of risks in line with the corporate policy on credit quality, supervising the overall coordination of banking activities and ensuring that all transactions, including those in the Special Credit segment, are monitored (although subsidiaries are still autonomous in granting credit to their customers).
- the Risks Performance Control Area ensures constant monitoring of credit quality for the entire branch network, highlighting the positions that show critical factors in compliance with the corporate risk management policy;
- Litigation Office is responsible for the management of positions classified as non-performing by implementing all of the requirements for the management and recovery of loans;
- the Internal Audit Department, assesses the effectiveness and reliability of the entire internal control system, bringing to the attention of the corporate bodies and functions potential improvements, in line with the requirements of the regulations laid down by the Supervisory Authority. As regards the audit work performed on the branch network, Internal Audit checks compliance with internal and external regulations, operational regularity and the effectiveness of line controls, inclusive of those relating to lending;
- The Risk Management Department supports corporate governance by coordinating and controlling the activities of their areas of responsibility in compliance with the Risk Appetite Framework, risk plans and policies in place and in compliance with primary and secondary corporate regulations. In particular, the Risk Management Office has the task of developing models and methodologies for the assessment of credit risk and prepares periodic reports; the analysis performed mainly relates to the evolution of the risk profile of the total loan portfolio or of parts of the portfolio which may feature particular risks. The Credit Control function, which is part of the Risk Management Department, checks proper conduct of the performance monitoring on individual performing loans, correct classification of non-performing loans and the adequacy of the provisions made against them.

***2.2 Systems for managing, measuring and monitoring credit risk***

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

During the fact finding stages of the lending process, the Bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the Bank operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend. These activities are carried out by the Risk Performance Control.

As part of its corporate risk management policy, the Bank has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the 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 regards checking the proper conduct of the performance monitoring and evaluation of the adequacy of provisions for non-performing loans, the Risk Management Department supervises the activities carried out by the first level control functions, intervening in the event of a dissenting opinion on both the classification of positions and the amount of analytical adjustments.

For risk management purposes, Banco Desio uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. This Logit model provides for the determination of PD (probability of default) by means of a combined analysis and assessment of trends and fundamental factors. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due, unlikely-to-pay and doubtful loans).

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

***2.3 Credit risk mitigation techniques***

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

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

A prudent spread is applied to the collateral based on the inherent risk of the pledged asset; the collateral is subjected to monitoring in order to verify its actual value compared to its initial value and to permit measures to be taken in the event of a fall in value. On the acquisition of mortgage collateral a spread is applied as envisaged by internal regulations. Unsecured guarantees mainly consist of guarantees provided by individuals and companies. Their valorisation is based on an assessment of the guarantor's estate during the investigation process or for the purpose of the renewal of credit.

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

### *2.4. Non-performing financial assets*

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

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

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

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

The Bank has introduced a policy governing criteria and rules for the application of adjustments by codifying the rules that lay down the minimum percentages to be applied in determining expected losses, depending on the type of impaired loans, the original technical form and the type of collateral.

The expected loss is, in fact, the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. The expected loss is constantly monitored 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

# A. CREDIT QUALITY

## A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

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

| Portfolio/Quality | Doubtful loans | "Unlikely to pay" loans | Past due non-performing loans | Past due performing loans | Other performing exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets available for sale | - | - | - | - | 1,444,699 | 1,444,699 |
| 2. Financial assets held to maturity | - | - | - | - | - | - |
| 3. Due from banks | - | - | - | - | 447,669 | 447,669 |
| 4. Loans to customers | 262,134 | 182,203 | 18,536 | 156,417 | 5,358,543 | 5,977,833 |
| 5. Financial assets designated at fair value through profit and loss | - | - | - | - | - | - |
| 6. Financial assets being sold | - | - | - | - | - | - |
| **Total 31.12.2015** | **262,134** | **182,203** | **18,536** | **156,417** | **7,250,911** | **7,870,201** |
| **Total 31.12.2014** | **264,101** | **177,078** | **35,104** | **314,064** | **7,998,403** | **8,788,750** |

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

| Portfolio/Quality | Non-performing loans | | | Performing loans | | | Total (Net exposure) |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific adjustments | Net exposure | Gross exposure | General portfolio adjustments | Net exposure | |
| 1. Financial assets available for sale | - | - | - | 1,444,699 | - | 1,444,699 | 1,444,699 |
| 2. Financial assets held to maturity | - | - | - | - | - | - | - |
| 3. Due from banks | - | - | - | 447,669 | - | 447,669 | 447,669 |
| 4. Loans to customers | 877,048 | -414,174 | 462,874 | 5,549,104 | -34,145 | 5,514,959 | 5,977,833 |
| 5. Financial assets designated at fair value through profit and loss | - | - | - | - | - | | |
| 6. Financial assets being sold | - | - | - | - | - | - | - |
| **Total 31.12.2015** | **877,048** | **-414,174** | **462,874** | **7,441,472** | **-34,145** | **7,407,327** | **7,870,201** |
| **Total 31.12.2014** | **818,652** | **-342,370** | **476,282** | **8,353,168** | **-40,701** | **8,312,468** | **8,788,750** |

At 31 December 2015 the amount of partial cancellations made on impaired financial assets in the portfolio of Loans to customers amounted to Euro 104,804 thousand.

| Portfolio/Quality | Assets with an obviously poor credit quality | | Other assets |
|---|---|---|---|
| | Accumulated losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | - | 3,065 |
| 2. Hedging derivatives | - | - | 1,859 |
| **Total 31.12.2015** | **-** | **-** | **4,924** |
| **Total 31.12.2014** | **-** | **-** | **6,356** |

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

| Types of exposure/Amounts | Gross exposure | | | | | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing loans | | | | Performing loans | | | |
| | Up to 3 months | From 3 to 6 months | From 6 to 12 months | Beyond 1 year | | | | |
| **A. CASH EXPOSURE** | | | | | | | | |
| a) Doubtful loans | - | - | - | - | - | - | | |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | | |
| b) “Unlikely to pay” loans | - | - | - | - | - | - | | |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | | |
| c) Past due non-performing loans | - | - | - | - | - | - | | |
| - of which: exposures subject to forbearance | - | - | - | - | - | - | | |
| d) Past due performing loans | - | - | - | | | | | |
| - of which: exposures subject to forbearance | - | - | - | | | | | |
| e) Other performing exposures | | | | | 520,540 | | - | 520,540 |
| - of which: exposures subject to forbearance | - | - | - | | | | | |
| **Total A** | **-** | **-** | **-** | **-** | **520,540** | **-** | **-** | **520,540** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | | | | |
| a) Non-performing | - | - | - | - | - | - | | |
| b) Performing | | | | | 20,686 | | - | 20,686 |
| **TOTAL B** | **-** | **-** | **-** | **-** | **20,686** | **-** | **-** | **20,686** |
| **TOTAL (A+B)** | **-** | **-** | **-** | **-** | **541,226** | **-** | **-** | **541,226** |

“Cash exposure” includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).

“Off-balance sheet exposures” include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

### A.1.4 On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are none at the reporting date.

### A.1.5 Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

There are none at the reporting date.

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

| Types of exposure/Amounts | Gross exposure | | | | | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing loans | | | | Performing loans | | | |
| | Up to 3 months | From 3 to 6 months | From 6 to 12 months | Beyond 1 year | | | | |
| **A. CASH EXPOSURE** | | | | | | | | |
| a) Doubtful loans | - | 4,519 | 25,452 | 564,983 | | -332,820 | | 262,134 |
| - of which: exposures subject to forbearance | - | - | 276 | 9,102 | | -5,339 | | 4,039 |
| b) Unlikely to pay | 43,856 | 52,296 | 55,655 | 108,746 | | -78,350 | | 182,203 |
| - of which: exposures subject to forbearance | 25,954 | 19,579 | 18,660 | 54,413 | | -31,855 | | 86,751 |
| c) Past due non-performing loans | 4,789 | 10,128 | 5,797 | 825 | | -3,003 | | 18,536 |
| - of which: exposures subject to forbearance | 3,614 | 6,532 | 3,743 | 547 | | -2,071 | | 12,365 |
| d) Past due performing loans | | | | | 159,372 | | -2,955 | 156,417 |
| - of which: exposures subject to forbearance | | | | | 16,294 | | -351 | 15,943 |
| e) Other performing exposures | | | | | 6,761,560 | | -31,190 | 6,730,370 |
| - of which: exposures subject to forbearance | | | | | 88,632 | | -2,446 | 86,186 |
| **TOTAL A** | **48,645** | **66,943** | **86,904** | **674,554** | **6,920,932** | **-414,173** | **-34,145** | **7,349,660** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | | | | |
| a) Non-performing | 2,337 | - | - | - | | -274 | | 2,063 |
| b) Performing | | | | | 409,681 | | -798 | 408,883 |
| **TOTAL B** | **2,337** | **-** | **-** | **-** | **409,681** | **-274** | **-798** | **410,946** |
| **TOTAL (A+B)** | **50,982** | **66,943** | **86,904** | **674,554** | **7,330,613** | **-414,447** | **-34,943** | **7,760,606** |

“Cash exposure” includes all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).“Off-balance sheet exposures” include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transactions (trading, hedging, etc.).It should also be pointed out the risk associated with exposures related to repurchase agreements.

### A.1.7 Banking Group - On-balance sheet credit exposures to customers: changes in gross non-performing loans

| Description/Categories | Doubtful loans | Unlikely to pay | Past due non-performing loans |
|---|---|---|---|
| **A. Opening gross exposure** | **519,827** | **259,224** | **39,600** |
| - of which: exposure sold but not derecognised | - | - | - |
| **B. Increases** | **120,538** | **199,902** | **56,589** |
| B.1 transfers from performing positions | 7,133 | 127,041 | 51,519 |
| B.2 transfers from other categories of non-performing exposures | 102,335 | 30,591 | 341 |
| B.3 other increases | 11,070 | 42,270 | 4,729 |
| - of which: business combinations | - | 10,855 | 4 |
| **C. Decreases** | **45,410** | **198,573** | **74,649** |
| C.1 transfers to performing positions | - | 3,736 | 19,236 |
| C.2 write-offs | 12,330 | - | - |
| C.3 collections | 32,985 | 47,318 | 14,796 |
| C.4 proceeds from disposal | 95 | 46,161 | 8,708 |
| C.5 losses on disposal | - | - | - |
| C.6 transfers to other categories of non-performing exposures | - | 101,358 | 31,909 |
| C.7 other decreases | - | - | - |
| - of which: business combinations | - | - | - |
| **D. Closing gross exposure** | **594,955** | **260,553** | **21,540** |
| - of which: exposure sold but not derecognised | - | - | - |

### A.1.7 bis On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

The information on changes in gross non-performing exposures subject to forbearance has to be given starting from 31 December 2016 (Table A.1.7 bis).

### A.1.8 On-balance sheet credit exposures to customers: changes in total adjustments

| Description/Categories | Doubtful loans | | "Unlikely to pay" loans | | Past due non-performing loans | |
|---|---|---|---|---|---|---|
| | Total | of which: exposures subject to forbearance | Total | of which: exposures subject to forbearance | Total | of which: exposures subject to forbearance |
| **A. Total opening adjustments** | **255,727** | **-** | **82,149** | **-** | **4,497** | **-** |
| - of which: exposure sold but not derecognised | - | - | - | - | - | - |
| **B. Increases** | **121,720** | **-** | **56,992** | **-** | **3,694** | **-** |
| B.1 write-downs | 90,699 | - | 50,698 | - | 3,592 | - |
| B.2 losses on disposal | 473 | - | - | - | - | - |
| B.3 transfers from other categories of non-performing exposures | 28,660 | - | 2,238 | - | 102 | - |
| B.4 other increases | 1,888 | - | 4,056 | - | - | - |
| - business combinations | - | - | 4,056 | - | - | - |
| **C. Decreases** | **44,626** | **-** | **60,789** | **-** | **5,188** | **-** |
| C.1 measurement write-backs | 21,865 | - | 12,050 | - | 1,013 | - |
| C.2 writebacks on collection | 9,935 | - | 6,073 | - | 431 | - |
| C.3 gains on disposal | 24 | - | - | - | - | - |
| C.4 write-offs | 12,330 | - | - | - | - | - |
| C.5 transfers to other categories of non-performing exposures | - | - | 28,290 | - | 2,710 | - |
| C.6 other decreases | 472 | - | 14,376 | - | 1,034 | - |
| - business combinations | - | - | 14,376 | - | 1,034 | - |
| **D. Total closing adjustments** | **332,821** | **-** | **78,352** | **-** | **3,003** | **-** |
| - of which: exposure sold but not derecognised | - | - | - | - | - | - |

***Note***

The information on changes in adjustments to exposures subject to forbearance has to be given starting from 31 December 2016.

## A.2 Classification of exposures on the basis of external and internal rating

### A.2.1 Distribution of cash and "off-balance sheet" exposures by internal rating class

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

### A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class

Banco Desio does not use internal rating models for the determination of capital requirements.

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

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

| Exposures at 31.12.2015 | Internal rating class | | | | |
|---|---|---|---|---|---|
| | from 1 to 4 | from 5 to 6 | from 7 to 10 | Financial and Institutional | Total |
| Cash exposures | 62.18% | 28.42% | 7.85% | 1.55% | 100% |
| Off-balance sheet exposures | 82.56% | 14.65% | 1.67% | 1.12% | 100% |

## A.3 Distribution of guaranteed exposures by type of guarantee

### A.3.1 Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

### A.3.2 Guaranteed credit exposures to customers

| | | Secured guarantees (1) | | | | Unsecured guarantees (2) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Credit derivatives | | | | | Endorsement credits | | | | |
| | | | | | | | Other derivatives | | | | | | | | |
| | Amount of net exposures | Property, Mortgages | Property under finance leases | Securities | Other secured guarantees | CLN | Government and central banks | Other public entities | Banks | Other parties | Government and central banks | Other public entities | Banks | Other parties | Total (1)+(2) |
| 1. Guaranteed on-balance sheet exposures: | 3,678,665 | 2,224,081 | 250,241 | 175,809 | 189,941 | | | | | | | 81,771 | 341 | 729,638 | 3,651,822 |
| 1.1. totally guaranteed | 3,495,775 | 2,213,266 | 250,241 | 133,931 | 180,380 | | | | | | | 36,411 | 341 | 688,842 | 3,503,412 |
| *- of which: non-performing* | *394,539* | *326,012* | *19,100* | *1,768* | *8,923* | | | | | | | *186* | *91* | *38,551* | *394,631* |
| 1.2. partially guaranteed | 182,890 | 10,815 | | 41,878 | 9,561 | | | | | | | 45,360 | | 40,796 | 148,410 |
| *- of which: non-performing* | *17,640* | *10,510* | | *711* | *2,080* | | | | | | | *467* | | *3,597* | *17,365* |
| 2. Guaranteed off-balance sheet exposures: | 107,376 | 4,176 | | 18,271 | 14,370 | | | | | | | | 2,296 | 61,987 | 101,100 |
| 2.1. totally guaranteed | 91,962 | 4,176 | | 13,962 | 12,304 | | | | | | | | 1,631 | 59,844 | 91,917 |
| *- of which: non-performing* | *674* | *9* | | *107* | *345* | | | | | | | | | *213* | *674* |
| 2.2. partially guaranteed | 15,414 | | | 4,309 | 2,066 | | | | | | | | 665 | 2,143 | 9,183 |
| *- of which: non-performing* | *38* | | | *38* | | | | | | | | | | | *38* |

## B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

### B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

**P.1**

| Exposures/ Counterparties | Governments | | | Other public entities | | | Financial companies | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments |
| **A. Cash exposure** | | | | | | | | | |
| A.1 Doubtful loans | - | - | | - | - | | 490 | -867 | |
| - of which: exposures subject to forbearance | - | - | | - | - | | - | - | |
| A.2 Unlikely to pay loans | - | - | | - | - | | 297 | -275 | |
| - of which: exposures subject to forbearance | - | - | | - | - | | 67 | -100 | |
| A.3 Past due non-performing loans | - | - | | - | - | - | - | - | - |
| - of which: exposures subject to forbearance | - | - | | - | - | | - | - | |
| A.4 Performing loans | 1,366,878 | | - | - | | - | 479,354 | | -875 |
| - of which: exposures subject to forbearance | - | | - | - | - | - | 1,498 | | -57 |
| **Total A** | **1,366,878** | **-** | **-** | **-** | **-** | **-** | **480,141** | **-1,142** | **-875** |
| **B. Off-balance sheet exposures** | | | | | | | | | |
| B.1 Doubtful loans | - | - | | - | - | | - | - | |
| B.2 Unlikely to pay loans | - | - | | - | - | | - | - | |
| B.3 Other non-performing loans | - | - | | - | - | | - | - | - |
| B.4 Performing loans | 388 | - | - | - | | | 2,322 | | -186 |
| **Total B** | **388** | **-** | **-** | **-** | **-** | **-** | **2,322** | **-** | **-186** |
| **Total (A+B) 31.12.2015** | **1,367,266** | **-** | **-** | **-** | **-** | **-** | **482,463** | **-1,142** | **-1,061** |
| **Total (A+B) 31.12.2014** | **1,250,004** | **-** | **-** | **5,241** | **-** | **-332** | **985,613** | **-255,998** | **-830** |

### B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

**P.2**

| Exposures/Counterparties | Insurance companies | | | Non-financial companies | | | Other parties | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments | Net exposure | Specific adjustments | Portfolio adjustments |
| **A. Cash exposure** | | | | | | | | | |
| A.1 Doubtful loans | - | - | | 190,383 | -272,195 | | 71,262 | -59,758 | |
| - of which: exposures subject to forbearance | - | - | | 3,232 | -4,394 | | 807 | -944 | |
| A.2 Unlikely to pay loans | - | - | | 133,394 | -63,069 | | 48,512 | -15,006 | |
| - of which: exposures subject to forbearance | - | - | | 64,697 | -25,229 | | 21,987 | -6,526 | |
| A.3 Past due non-performing loans | - | - | | 13,483 | -2,176 | | 5,053 | -827 | |
| - of which: exposures subject to forbearance | - | - | | 9,509 | -1,578 | | 2,856 | -493 | |
| A.4 Performing loans | 1,346 | | - | 3,771,433 | | -30,849 | 1,267,776 | | -2,421 |
| - of which: exposures subject to forbearance | - | | - | 74,271 | | -2,465 | 26,359 | | -275 |
| **Total A** | **1,346** | **-** | **-** | **4,108,693** | **-337,440** | **-30,849** | **1,392,603** | **-75,591** | **-2,421** |
| **B. Off-balance sheet exposures** | | | | | | | | | |
| B.1 Doubtful loans | - | - | | 211 | -3 | | 1 | - | |
| B.2 Unlikely to pay loans | - | - | | 665 | -262 | | 26 | -9 | |
| B.3 Other non-performing loans | - | - | | 1,154 | - | | 7 | - | |
| B.4 Performing loans | 938 | | -11 | 239,861 | | -592 | 13,450 | | -9 |
| **Total B** | **938** | **-** | **-11** | **241,891** | **-265** | **-592** | **13,484** | **-9** | **-9** |
| **Total (A+B) 31.12.2015** | **2,284** | **-** | **-11** | **4,350,584** | **-337,705** | **-31,441** | **1,406,087** | **-75,600** | **-2,430** |
| **Total (A+B) 31.12.2014** | **4,975** | **-** | **-9** | **4,825,855** | **-67,029** | **-37,063** | **1,700,071** | **-19,865** | **-3,243** |

## B.2 - Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

| Exposures/Geographical areas | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Cash exposure** | | | | | | | | | | |
| A.1 Doubtful loans | 260,948 | -332,408 | 1,187 | -412 | - | - | - | - | - | - |
| A.2 Unlikely to pay loans | 182,187 | -78,339 | 16 | -11 | - | - | - | - | - | - |
| A.3 Past due non-performing loans | 18,499 | -3,001 | 37 | -2 | - | - | - | - | - | - |
| A.4 Performing loans | 6,802,769 | -34,055 | 82,450 | -88 | 1,334 | -1 | 234 | -1 | - | - |
| **Total A** | **7,264,403** | **-447,803** | **83,690** | **-513** | **1,334** | **-1** | **234** | **-1** | **-** | **-** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Doubtful loans | 212 | -3 | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay loans | 691 | -271 | - | - | - | - | - | - | - | - |
| B.3 Other non-performing loans | 1,161 | - | - | - | - | - | - | - | - | - |
| B.4 Performing loans | 256,926 | -798 | 33 | - | - | - | - | - | - | - |
| **Total B** | **258,990** | **-1,072** | **33** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B) 31.12.2015** | **7,523,393** | **-448,875** | **83,723** | **-513** | **1,334** | **-1** | **234** | **-1** | **-** | **-** |
| **Total (A+B) 31.12.2014** | **8,756,370** | **-383,778** | **13,558** | **-590** | **1,580** | **-** | **253** | **-** | **-** | **-1** |

## B.3 - Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

| Exposures/Geographical areas | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Cash exposure** | | | | | | | | | | |
| A.1 Doubtful loans | - | - | - | - | - | - | - | - | - | - |
| A.2 Unlikely to pay loans | - | - | - | - | - | - | - | - | - | - |
| A.3 Past due non-performing loans | - | - | - | - | - | - | - | - | - | - |
| A.4 Performing loans | 507,533 | - | 8,288 | - | 1,998 | - | 2,446 | - | 275 | - |
| **Total A** | 507,533 | - | 8,288 | - | 1,998 | - | 2,446 | - | 275 | - |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Doubtful loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay loans | - | - | - | - | - | - | - | - | - | - |
| B.3 Other non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.4 Performing loans | 15,667 | - | 1,968 | - | 241 | - | 2,754 | - | 56 | - |
| **Total B** | **15,667** | **-** | **1,968** | **-** | **241** | **-** | **2,754** | **-** | **56** | **-** |
| **Total (A+B) 31.12.2015** | **523,200** | **-** | **10,256** | **-** | **2,239** | **-** | **5,200** | **-** | **331** | **-** |
| **Total (A+B) 31.12.2014** | **389,409** | **-** | **32,766** | **-** | **1,161** | **-** | **139** | **-** | **302** | **-** |

## B.4 Major risks

With reference to current supervisory regulations, the situation at 31 December 2015 is reported below (amounts in thousands of Euro):

| Description | Nominal amount | Weighted amount | Number of positions |
|---|---|---|---|
| Major risks | 2,808,410 | 107,643 | 3 |

The positions indicated relate to exposures towards the Italian Government relating to securities in portfolio, Cassa di Compensazione e Garanzia and Group companies.

## C. SECURITISATION TRANSACTIONS

**Qualitative information**

### C.1 Exposures arising from principal “own” securitisations, broken down by type of securitised asset and by type of exposure

None.

## C.2 Exposures arising from principal "third party" securitisations broken down by type of securitised asset and by type of exposure

| Type of underlying assets/Exposures | Cash exposures | | | | | | Guarantees given | | | | | | Lines of credit | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Adjustments/ write-backs | Book value | Adjustments/ write-backs | Book value | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs | Net exposure | Adjustments/ write-backs |
| A.1 F.I.P 26.04.25 – PROPERTY | 538 | 3 | | | | | | | | | | | | | | | | |

# E. ASSET DISPOSALS

## A. Financial assets sold and not fully derecognised

### Qualitative information

The figures described in this section relate entirely to repurchase agreements with ordinary customers.

Assets (table E.1) include the *fair value* and the book portfolio of debt securities used as collateral in such transactions; liabilities (table E.2) include the present value of the amounts due to customers generated by such funding transactions.

The transferred assets (which continue to be fully recognised in the financial statements) cannot be used by the Bank in other transactions of this type, nor can they be sold before expiry of the repurchase agreements.

As in all transactions of this type, the Bank is exposed to counterparty risk, which is the risk that the lending party does not return the underlying notional on maturity.

### Quantitative information

## E.1 Financial assets sold but not derecognised: book value and full value

### P.1

| Technical forms/Portfolio | Financial assets held for trading | | | Financial assets designated at fair value through profit and loss | | |
|---|---|---|---|---|---|---|
| | A | B | C | A | B | C |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | | | | | | |
| 2. Equity instruments | | | | | | |
| 3. UCITS units | | | | | | |
| 4. Loans | | | | | | |
| **B. Derivatives** | | | | | | |
| **Total 31.12.2015** | | | | | | |
| *of which: non-performing* | | | | | | |
| **Total 31.12.2014** | | | | | | |
| *of which: non-performing* | | | | | | |

## E.1 Financial assets sold but not derecognised: book value and full value

### P.2

| Technical forms/Portfolio | Financial assets available for sale | | | Financial assets held to maturity | | |
|---|---|---|---|---|---|---|
| | A | B | C | A | B | C |
| **A. Cash assets** | 152,057 | | | | | |
| 1. Debt securities | 152,057 | | | | | |
| 2. Equity instruments | | | | | | |
| 3. UCITS units | | | | | | |
| 4. Loans | | | | | | |
| **B. Derivatives** | | | | | | |
| **Total 31.12.2015** | 152,057 | | | | | |
| *of which: non-performing* | | | | | | |
| **Total 31.12.2014** | 93,773 | | | | | |
| *of which: non-performing* | | | | | | |

## E.1 Financial assets sold but not derecognised: book value and full value

**P.3**

| Technical forms/Portfolio | Due from banks | | | Loans to customers | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | 31.12.2015 | 31.12.2014 |
| **A. Cash assets** | | | | | | | 152,057 | 93,773 |
| 1. Debt securities | | | | | | | 152,057 | 93,773 |
| 2. Equity instruments | | | | | | | | |
| 3. UCITS units | | | | | | | | |
| 4. Loans | | | | | | | | |
| **B. Derivatives** | | | | | | | | |
| **Total 31.12.2015** | | | | | | | 152,057 | |
| *of which: non-performing* | | | | | | | | |
| **Total 31.12.2014** | | | | | | | | 93,773 |
| *of which: non-performing* | | | | | | | | |

**Key**
A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

## E.2 Financial liabilities pertaining to financial assets sold but not derecognised: book value

| Liabilities/Portfolio assets | Financial assets held for trading | Financial assets designated at fair value through profit and loss | Financial assets available for sale | Financial assets held to maturity | Due from banks | Loans to customers | Total |
|---|---|---|---|---|---|---|---|
| **1. Due to customers** | | | **152,105** | | | | **152,105** |
| a) pertaining to assets recognised in full | | | 152.105 | | | | 152,105 |
| b) pertaining to assets recognised in part | | | | | | | |
| **2. Due to banks** | | | | | | | |
| a) pertaining to assets recognised in full | | | | | | | |
| b) pertaining to assets recognised in part | | | | | | | |
| **Total 31.12.2015** | | | **152,105** | | | | **152,105** |
| **Total 31.12.2014** | | | **93,756** | | | | **93,756** |

## F. CREDIT RISK MEASUREMENT MODELS

The Bank does not use internal portfolio models for measuring credit risk exposure.

# SECTION 2 – MARKET RISKS

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

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

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

Trading by the Finance Department is subject to operating limits as set out in the “Risk policy” and in the “Consolidated Texts; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved. The content and frequency of reports depend on the objectives assigned to each participant in the process. The results of monitoring are provided daily to the head of the Finance Department and to General Management. Together with the above controls, the Bank also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management department, which operates in complete autonomy from the operational areas.

For the quantification of generic risks, Banco Desio 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 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

### 1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Euro

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | From 6 to 12 months | From 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | - | - | - | - | - | - | - | - |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | - | - | - | - | - | - | - | - |
| 2.1 Repurchase agreements | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 240,990 | 7,054 | 3,479 | 1,590 | - | - | - |
| + Short positions | - | 241,109 | 7,049 | 3,478 | 1,589 | - | - | - |

### 1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | From 6 to 12 months | From 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | - | - | - | - | - | - | - | - |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | - | - | - | - | - | - | - | - |
| 2.1 Repurchase agreements | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 242,728 | 7,147 | 3,532 | 1,570 | - | - | - |
| + Short positions | - | 242,569 | 7,147 | 3,532 | 1,570 | - | - | - |

### 2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

There are none at the reporting date.

### 3. Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the “trading portfolio reported for supervisory purposes” in 2015 evidenced a structure with limited market risk, given the Bank's policy not to hold financial instruments in this portfolio. Almost all of the "trading portfolio for supervisory purposes" is exposed to price risk Related VaR at 31.12.2015 amounted to € 1 thousand.

## 2.2 Interest rate risk and price risk - Banking book

### Qualitative information

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

The measurement of interest rate risk is performed by the risk management department, which is autonomous with respect to operational areas. All of the Bank's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methodologies using ALMpro. The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income.

The model covers assets and liabilities exposed to interest rate risk included in the banking book and in the financial statements.

In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of several variants of GapAnalysis in order to achieve more accurate estimates.

The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are performed through parallel shifts in the yield curve and specific scenarios of changes in market interest rates.

**B. Fair value hedges**

The Bank's primary objective is to manage in a prudent and active manner the risks associated with operations, that is, to manage them with a specific risk profile, which permits any opportunities arising from changes in risk to be taken advantage of.

To date, the Bank has used fair value hedges in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.

Hedged instruments relate both to assets (fixed-rate mortgage loans granted, bonds classified under financial assets available for sale) and to 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.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The methodology used by the Bank to perform effectiveness tests is the “Dollar Offset Method” (hedge ratio) on a cumulative basis, that is, a comparison of the change in fair value of the hedging instrument with that of the hedged instrument. All hedges are specific.

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

**C. Cash flow hedges**

The 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

### 1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Euro

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | From 6 to 12 months | From 1 to 5 years | 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **1,544,290** | **4,316,276** | **425,054** | **249,166** | **1,095,848** | **85,384** | **48,849** | **-** |
| 1.1 Debt securities | 1,003 | 170,449 | 282,700 | 183,146 | 715,038 | 64,270 | 28,093 | - |
| - with early redemption option | | -12,750 | - | - | - | - | - | |
| - other | 1,003 | 157,699 | 282,700 | 183,146 | 715,038 | 64,270 | 28,093 | - |
| 1.2 Loans to banks | 19,751 | 363,042 | - | - | - | - | - | - |
| 1.3 Loans to customers | 1,523,536 | 3,782,785 | 142,354 | 66,020 | 380,810 | 21,114 | 20,756 | - |
| - current accounts | 1,090,909 | 449,239 | 2,988 | 5,116 | 63,837 | 563 | - | - |
| - other loans | 432,627 | 3,333,546 | 139,366 | 60,904 | 316,973 | 20,551 | 20,756 | - |
| - with early redemption option | 49,512 | 2,711,051 | 94,132 | 41,826 | 128,784 | 18,727 | 20,568 | - |
| - other | 383,115 | 622,495 | 45,234 | 19,078 | 188,189 | 1,824 | 188 | - |
| **2. Cash liabilities** | **3,833,360** | **1,579,272** | **267,150** | **347,615** | **1,397,365** | **56,890** | **-** | **-** |
| 2.1 Due to customers | 3,627,132 | 1,102,962 | 102,964 | 170,462 | 59,725 | - | - | - |
| - current accounts | 3,588,624 | 950,851 | 102,954 | 170,459 | 59,725 | - | - | - |
| - other payables | 38,508 | 152,111 | 10 | 3 | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 38,508 | 152,111 | 10 | 3 | - | - | - | - |
| 2.2 Due to banks | 187,321 | 32,615 | - | - | 551,009 | - | - | - |
| - current accounts | 26,394 | - | - | - | - | - | - | - |
| - other payables | 160,927 | 32,615 | - | - | 551,009 | - | - | - |
| 2.3 Debt securities | 18,907 | 443,695 | 164,186 | 177,153 | 786,631 | 56,890 | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 18,907 | 443,695 | 164,186 | 177,153 | 786,631 | 56,890 | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 62 | 388 | - | 80 | - | - | - |
| + Short positions | - | 489 | 30 | - | 12 | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | 31,637 | 14,279 | 30,664 | 248,779 | 40,580 | 30,228 | - |
| + Short positions | 19,292 | 368,135 | 8,739 | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 267,900 | - | 34,617 | 10,000 | - | - | - |
| + Short positions | - | 182,517 | - | - | - | 130,000 | - | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 26,226 | - | - | - | - | - | - | - |
| + Short positions | 26,226 | - | - | - | - | - | - | - |

**1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities**

OTHER CURRENCIES

| Type/Residual duration | On demand | Up to 3 months | 3 to 6 months | From 6 to 12 months | From 1 to 5 years | From 5 to 10 years | Over 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **38,634** | **59,378** | **3,950** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Loans to banks | 37,666 | 24,196 | 1,903 | - | - | - | - | - |
| 1.3 Loans to customers | 968 | 35,182 | 2,047 | - | - | - | - | - |
| - current accounts | - | - | - | - | - | - | - | - |
| - other loans | 968 | 35,182 | 2,047 | - | - | - | - | - |
| - with early redemption option | 722 | - | - | - | - | - | - | - |
| - other | 246 | 35,182 | 2,047 | - | - | - | - | - |
| **2. Cash liabilities** | **92,484** | **7,994** | **1,903** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Due to customers | 62,494 | - | - | - | - | - | - | - |
| - current accounts | 62,494 | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | | - | - | - |
| - other | - | - | - | - | - | - | | - |
| 2.2 Due to banks | 29,990 | 7,994 | 1,903 | - | - | - | - | - |
| - current accounts | 29,990 | - | - | - | - | - | - | - |
| - other payables | - | 7,994 | 1,903 | - | - | | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | - | 4,421 | - | - | - | - | - | - |
| + Short positions | - | 4,421 | - | - | - | - | - | - |

**2. Banking book: internal models and other methodologies for the analysis of sensitivity**

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

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations.

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 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 31.12.2015

| | +100 bps | -100 bps |
|---|---|---|
| % of the expected margin | 5.19% | -17.74% |
| % of net interest and other banking income | 2.49% | -8.52% |
| % of result for the year | 16.65% | -56.92% |
| % of shareholders' equity | 0.77% | -2.62% |

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure at 31 December 2015 that has been maintained at levels that do not significantly impact total capital.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2015

| | +100 bps | -100 bps |
|---|---|---|
| % of the economic value | -0.90% | 1.41% |

## 2.3 Exchange risk

### Qualitative information

**A. General aspects, management and measurement of exchange risk**

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

The Bank is marginally exposed to foreign exchange risk. The Operations Room of the Finance Department manages forex operations, in respect to which it:

- operates in domestic and international foreign exchange, interest rate and foreign currency deposits markets;
- executes spot and forward currency contracts on its own account and on behalf of customers;
- executes currency forwards and foreign currency deposits with resident and non resident counterparties.

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

**B. Hedging of exchange risk**

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

**Quantitative information**

**1. Distribution by currency of denomination of assets, liabilities and derivatives**

| Captions | US Dollar | Pound Sterling | Yen | Swiss Franc | Other currencies |
|---|---|---|---|---|---|
| **A. Financial assets** | **85,696** | **3,573** | **3,981** | **3,249** | **5,150** |
| A.1 Debt securities | | | | | |
| A.2 Equity instruments | | | | | |
| A.3 Loans to banks | 55,707 | 2,334 | 668 | 1,881 | 2,936 |
| A.4 Loans to customers | 29,989 | 1,239 | 3,313 | 1,368 | 2,214 |
| A.5 Other financial assets | | | | | |
| **B. Other assets** | **229** | **91** | **7** | **126** | **21** |
| **C. Financial liabilities** | **85,098** | **3,701** | **4,150** | **3,196** | **5,956** |
| C.1 Due to banks | 29,422 | 1,928 | 4,122 | 837 | 3,570 |
| C.2 Due to customers | 55,676 | 1,773 | 28 | 2,359 | 2,386 |
| C.3 Debt securities | | | | | |
| C.4 Other financial liabilities | | | | | |
| **D. Other liabilities** | **796** | | | **103** | **19** |
| **E. Financial derivatives** | | | | | |
| - Options | | | | | |
| + Long positions | | | | | |
| + Short positions | | | | | |
| - Other derivatives | | | | | |
| + Long positions | 182,817 | 49,289 | 4,327 | 11,596 | 6,947 |
| + Short positions | 182,801 | 49,155 | 4,327 | 11,555 | 6,980 |
| **Total assets** | **268,742** | **52,953** | **8,315** | **14,971** | **12,118** |
| **Total liabilities** | **-268,695** | **-52,856** | **-8,477** | **-14,854** | **-12,955** |
| **Net balance (+/-)** | **47** | **97** | **-162** | **117** | **-837** |

**2. Internal models and other methodologies for the analysis of sensitivity**

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

## 2.4 Derivative instruments

### A. Financial derivatives

**A.1 Regulatory trading book: notional values at the end of period**

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | | | | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **2. Equities and equity indices** | | **11** | | **36** |
| a) Options | | 11 | | 36 |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **3. Currency and gold** | **504,821** | | **289,355** | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | 504,821 | | 289,355 | |
| d) Futures | | | | |
| e) Other | | | | |
| **4. Commodities** | | | | |
| **5. Other underlyings** | | | | |
| **Total** | **504,821** | **11** | **289,355** | **36** |

## A.2 Banking book: period-end notional values

### A.2.1 Hedging

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **289,617** | **-** | **79,617** | **-** |
| a) Options | | | | |
| b) Swap | 289,617 | - | 79,617 | - |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **2. Equities and equity indices** | | | | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **3. Currency and gold** | | | | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **4. Commodities** | | | | |
| **5. Other underlyings** | | | | |
| **Total** | **289,617** | **-** | **79,617** | **-** |

### A.2.2 Other derivatives

| Underlying assets/Type of derivatives | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **1. Debt securities and interest rates** | **68,700** | **-** | **68,700** | **-** |
| a) Options | 45,800 | - | 45,800 | - |
| b) Swap | 22,900 | - | 22,900 | - |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **2. Equities and equity indices** | | | | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **3. Currency and gold** | | | | |
| a) Options | | | | |
| b) Swap | | | | |
| c) Forward | | | | |
| d) Futures | | | | |
| e) Other | | | | |
| **4. Commodities** | | | | |
| **5. Other underlyings** | | | | |
| **Total** | **68,700** | **-** | **68,700** | **-** |

**A.3 Financial derivatives: positive gross fair value – breakdown by product**

| Underlying assets/Type of derivatives | Positive fair value | | | |
|---|---|---|---|---|
| | 31.12.2015 | | 31.12.2014 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **A. Trading portfolio for supervisory purposes** | **2,059** | **11** | **2,136** | **36** |
| a) Options | | 11 | | 36 |
| b) Interest rate swaps | | | | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | 2,059 | | 2,136 | |
| f) Futures | | | | |
| g) Other | | | | |
| **B. Banking book - hedging** | **1,859** | | **2,784** | |
| a) Options | | | | |
| b) Interest rate swaps | 1,859 | | 2,784 | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **C. Banking book - other derivatives** | **995** | | **1,339** | |
| a) Options | | | | |
| b) Interest rate swaps | 995 | | 1,339 | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **Total** | **4,913** | **11** | **6,259** | **36** |

**A.4 Financial derivatives: positive gross fair value – breakdown by product**

| Underlying assets/Type of derivatives | Positive fair value | | | |
|---|---|---|---|---|
| | 31.12.2015 | | 31.12.2014 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| **A. Trading portfolio for supervisory purposes** | **2,022** | | **2,084** | |
| a) Options | | | | |
| b) Interest rate swaps | | | | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | 2,022 | | 2,084 | |
| f) Futures | | | | |
| g) Other | | | | |
| **B. Banking book - hedging** | **19,924** | | | |
| a) Options | | | | |
| b) Interest rate swaps | 19,924 | | | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **C. Banking book - other derivatives** | | | | |
| a) Options | | | | |
| b) Interest rate swaps | | | | |
| c) Cross currency swaps | | | | |
| d) Equity swaps | | | | |
| e) Forwards | | | | |
| f) Futures | | | | |
| g) Other | | | | |
| **Total** | **21,946** | | **2,084** | |

**A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements**

| Contracts that do not form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | 204,799 | 244,741 | | 25,716 | 29,565 |
| - positive fair value | | | 501 | 1,152 | | 236 | 170 |
| - negative fair value | | | 1,278 | 451 | | 284 | 9 |
| - future exposure | | | 2,111 | 2,447 | | 320 | 296 |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |

**A.6 OTC financial derivatives - trading portfolio for supervisory purposes: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

There are none at the reporting date.

**A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements**

There are none at the reporting date.

**A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

| Contracts that do not form part of compensation arrangements | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rates** | | | | | | | |
| - notional value | | | 358,317 | | | | |
| - positive fair value | | | 2,855 | | | | |
| - negative fair value | | | 19,924 | | | | |
| **2. Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **3. Currency and gold** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| **4. Other instruments** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |

**A.9 Residual life of OTC financial derivatives: notional values**

| Underlying/Residual life | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **A. Trading portfolio for supervisory purposes** | **501,681** | **3,140** | | **504,821** |
| A.1 Financial derivatives linked to debt securities and interest rates | | | | |
| A.2 Financial derivatives linked to equities and stock indices | | | | |
| A.3 Financial derivatives linked to exchange rates and gold | 501,681 | 3,140 | | 504,821 |
| A.4 Financial derivatives linked to other instruments | | | | |
| **B. Banking book** | **182,517** | **45,800** | **130,000** | **358,317** |
| B.1 Financial derivatives linked to debt securities and interest rates | 182,517 | 45,800 | 130,000 | 358,317 |
| B.2 Financial derivatives linked to equities and stock indices | | | | |
| B.3 Financial derivatives linked to exchange rates and gold | | | | |
| B.4 Financial derivatives linked to other instruments | | | | |
| **Total 31.12.2015** | **684,198** | **48,940** | **130,000** | **863,138** |
| **Total 31.12.2014** | **332,255** | **105,417** | | **437,672** |

## B. Credit derivatives

**B.1 Credit derivatives: notional values at the end of period**

| Type of transaction | Trading portfolio for supervisory purposes | | Banking book | |
|---|---|---|---|---|
| | on a single entity | on baskets of entities | on a single entity | on baskets of entities |
| **1. Purchases of protection** | | | | |
| a) Credit default products | | | | |
| b) Credit spread products | | | | |
| c) Total rate of return swaps | | | | |
| d) Other | | | | |
| **Total 31.12.2015** | | | | |
| **Total 31.12.2014** | | | | |
| **2. Sales of protection** | | | | |
| a) Credit default products | | | | |
| b) Credit spread products | | | | |
| c) Total rate of return swaps | | | | |
| d) Other | | | | |
| **Total 31.12.2015** | | | | |
| **Total 31.12.2014** | **25,000** | | | |

**B.2 OTC credit derivatives: positive gross fair value - breakdown by product**

| Portfolio/Type of derivatives | Positive fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| A. Trading portfolio for supervisory purposes | | 61 |
| a) Credit default products | | 61 |
| b) Credit spread products | | |
| c) Total rate of return swaps | | |
| d) Other | | |
| B. Banking book | | |
| a) Credit default products | | |
| b) Credit spread products | | |
| c) Total rate of return swaps | | |
| d) Other | | |
| **Total** | | **61** |

**B.3 OTC credit derivatives: negative gross fair value - breakdown by product**

There are none at the reporting date.

**B.4 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements**

There are none at the reporting date.

**B.5 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements**

There are none at the reporting date.

**B.6 Residual life of credit derivatives: notional values**

| Underlying/Residual life | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **A. Trading portfolio for supervisory purposes** | | | | |
| A.1 Credit derivatives with qualified reference obligation | | | | |
| A.2 Credit derivatives with unqualified reference obligation | | | | |
| **B. Banking book** | | | | |
| B.1 Credit derivatives with qualified reference obligation | | | | |
| B.2 Credit derivatives with unqualified reference obligation | | | | |
| **Total 31.12.2015** | | | | |
| **Total 31.12.2014** | **25,000** | | | **25,000** |

## C. Financial and credit derivatives

### C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

| | Government and central banks | Other public entities | Banks | Financial companies | Insurance companies | Non-financial companies | Other parties |
|---|---|---|---|---|---|---|---|
| **1) Bilateral financial derivative agreements** | | | **23,492** | | | | |
| - positive *fair value* | | | 2,166 | | | | |
| - negative *fair value* | | | 19,236 | | | | |
| - future exposure | | | 2,090 | | | | |
| - net counterparty risk | | | | | | | |
| **2) Bilateral credit derivative agreements** | | | | | | | |
| - positive *fair value* | | | | | | | |
| - negative *fair value* | | | | | | | |
| - future exposure | | | | | | | |
| - net counterparty risk | | | | | | | |
| **3) Cross product agreements** | | | | | | | |
| - positive *fair value* | | | | | | | |
| - negative *fair value* | | | | | | | |
| - future exposure | | | | | | | |
| - net counterparty risk | | | | | | | |

# SECTION 3 - LIQUIDITY RISK

## Qualitative information

### A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of meeting liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market. The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Department in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk.

Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

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

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

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

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

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

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

In particular, the events considered are:

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

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

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

The time horizon for the simulation of all scenarios is 1 month.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the 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.

## Quantitative information

### 1. Distribution of financial assets and liabilities by residual contractual duration

Euro

| Captions/Residual duration | On demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **1,684,272** | **70,963** | **122,103** | **213,460** | **737,470** | **282,147** | **595,652** | **2,558,963** | **1,632,203** | **97,804** |
| A.1 Government securities | 2 | - | - | - | 1,637 | 1,947 | 184,589 | 702,000 | 455,000 | - |
| A.2 Other debt securities | 15 | - | 23 | 237 | 193 | 73 | 7,453 | 53,140 | 17,557 | - |
| A.3 UCITS units | 77,937 | | | | | | | | | |
| A.4 Loans | 1,606,318 | 70,963 | 122,080 | 213,223 | 735,640 | 280,127 | 403,610 | 1,803,823 | 1,159,646 | 97,804 |
| - Banks | 19,751 | 56,390 | 63,813 | - | 145,047 | - | - | - | - | 97,804 |
| - Customers | 1,586,567 | 14,573 | 58,267 | 213,223 | 590,593 | 280,127 | 403,610 | 1,803,823 | 1,159,646 | - |
| **Cash liabilities** | **4,326,433** | **180,803** | **66,527** | **136,654** | **353,644** | **227,233** | **384,357** | **1,688,958** | **190,380** | **-** |
| B.1 Deposits and current accounts | 4,296,974 | 22,623 | 30,498 | 75,196 | 212,345 | 103,309 | 171,959 | 59,647 | - | - |
| - Banks | 26,454 | - | - | 32,617 | - | - | - | - | - | - |
| - Customers | 4,270,520 | 22,623 | 30,498 | 42,579 | 212,345 | 103,309 | 171,959 | 59,647 | - | - |
| B.2 Debt securities | 96 | 6,059 | 36,019 | 28,844 | 141,299 | 106,660 | 195,138 | 955,111 | 188,107 | - |
| B.3 Other liabilities | 29,363 | 152,121 | 10 | 32,614 | - | 17,264 | 17,260 | 674,200 | 2,273 | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives w ith exchange of capital | | | | | | | | | | |
| - Long positions | - | 2,511 | 981 | 224,668 | 12,892 | 7,442 | 3,479 | 1,669 | - | - |
| - Short positions | - | 3,124 | 969 | 224,650 | 12,855 | 7,079 | 3,478 | 1,601 | - | - |
| C.2 Financial derivatives w ithout exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | 272 | 671 | 159 | 582 | - | - | - |
| - Short positions | - | - | - | 54 | 752 | 168 | 1,001 | - | - | - |
| C.3 Deposits and loans to be received | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to grant finance | | | | | | | | | | |
| - Long positions | - | - | - | - | - | 151 | 4 | 15,961 | 10,108 | - |
| - Short positions | 26,226 | | | | | | | | | |
| C.5 Financial guarantees given | | | | | | | | | | |
| C.6 Financial guarantees received | | | | | | | | | | |
| C.7 Credit derivatives w ith exchange of capital | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.8 Credit derivatives w ithout exchange of capital | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |

**1. Distribution of financial assets and liabilities by residual contractual duration**

OTHER CURRENCIES

| Captions/Residual duration | On demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **38,635** | **1** | **9,016** | **28,123** | **22,555** | **3,992** | **-** | **-** | **14** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | 14 | - |
| A.3 UCITS units | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 38,635 | 1 | 9,016 | 28,123 | 22,555 | 3,992 | - | - | - | - |
| - Banks | 37,666 | 1 | 2,697 | 21,512 | - | 1,909 | - | - | - | - |
| - Customers | 969 | - | 6,319 | 6,611 | 22,555 | 2,083 | - | - | - | - |
| **Cash liabilities** | **92,484** | **4,133** | **2,236** | **1,629** | **-** | **1,909** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 92,484 | 4,133 | 2,236 | 1,629 | - | 1,909 | - | - | - | - |
| - Banks | 29,990 | 4,133 | 2,236 | 1,629 | - | 1,909 | - | - | - | - |
| - Customers | 62,494 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - |
| **Off-balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | | | | |
| C.1 Financial derivatives w ith exchange of capital | - | - | - | - | - | - | | | | |
| - Long positions | - | 2,646 | 980 | 226,166 | 12,935 | 7,147 | 3,532 | 1,570 | - | - |
| - Short positions | - | 2,477 | 990 | 226,166 | 12,935 | 7,147 | 3,532 | 1,570 | - | - |
| C.2 Financial derivatives w ithout exchange of capital | - | - | - | | | - | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | |
| - Long positions | - | 4,126 | - | - | - | - | - | - | - | |
| - Short positions | - | 4,126 | - | - | - | - | - | - | - | |
| C.4 Irrevocable commitments to grant finance | - | - | - | - | - | - | - | - | - | |
| - Long positions | - | 295 | - | - | - | - | - | - | - | - |
| - Short positions | - | 295 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives w ith exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives w ithout exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

## SECTION 4 - OPERATIONAL RISK

### Qualitative information

**A. General aspects, management and measurement of operational risk**

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

Banco di Desio e della Brianza uses the above definition of operational risk within the operational risk management model as approved and formalised.

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

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

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

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

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

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 Methodology.

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

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

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning revocatory actions, alleged usury and compound interest charges.

Banco di Desio e della Brianza, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions.

A summary table of legal disputes with the related provisions and a listing of the major lawsuits is shown below:

**Claw-back suits**

| | |
|---|---|
| Number | 13 |
| Claim | € 7.019 million |
| Provision | € 2.042 million |

**Other lawsuits**

| | |
|---|---|
| Number | 339 |
| Claim | € 11.058 million |
| Provision | € 10.150 million |

### Significant lawsuits (claims higher than € 1 million)

- CLAIM € 2.692 million. Plaintiff FAIRFIELD. Judicial procedure initiated by Fairfield Sentry Limited Fund brought before the United States Bankruptcy Court for the Southern District of New York against Banco di Desio e della Brianza S.p.A. in its capacity as custodian bank of a mutual fund managed by an Italian asset management company. This legal action is aimed at the recovery of payments made between 2005 and 2008 of a total amount of $3,853,221.77 by Fairfield Fund (put into liquidation as a result of the well known events involving Bernard L. Madoff) to Banco di Desio e della Brianza S.p.A. (in its capacity as custodian bank) on behalf of the aforementioned mutual fund. Banco di Desio e della Brianza S.p.A. acted as a mere intermediary in the relationship between the Funds;
- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1.833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property;
- CLAIM € 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. Recently, the Milan Court of Appeal issued a judgement in favour of the Bank, confirming the first instance judgement and condemning the defendant to pay the litigation costs. The Bank is waiting for the judgement to become final on expiration of the period allowed for appeal;
- CLAIM € 45.608 million. By writ of summons, the counterparty in Extraordinary Administration brought legal proceedings against Banco di Desio e della Brianza S.p.A. and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of € 45.608 million as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. Banco di Desio e della Brianza S.p.A. appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, the counterparty appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. With judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty in its entirety. By application filed on 06.06.2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;
- CLAIM: € 2 million - By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A. paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree;
- CLAIM € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court;
- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.;
- CLAIM € 1.565 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose draft report appears to be in favour of Banco Desio della Brianza S.p.A.;
- CLAIM € 10 million. The company opposed the injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco di Desio e della Brianza S.p.A. of an amount of Euro 10 million for damages sustained by way of capital reduction and for damage to the company's reputation. The claim for damages was justified by the counterparty as a consequence of an illegitimate withdrawal of banking facilities and for having been consequently reported to Central Risks. The preliminary investigation made it possible to confirm the correctness of credit awarded under the injunction. The case is currently being decided;

- CLAIM € 1.818 million. The plaintiff was declared bankrupt in 2015 after being admitted to the Extraordinary Administration Procedure in 2011. A summons has been notified to Banco di Desio È della Brianza S.p.A. concerning the bankruptcy clawback of € 1.818 million. The officials of the bankruptcy proceedings decided to sue, contesting certain movements that seemed to indicate anomalous activity on the plaintiff's account. The Bank questioned that they were revocable remittances, as they were actually mere accounting transactions carried out in the execution of the restructuring agreement as per art. 67 paragraph 2, letter d) of the Bankruptcy Law and, as such, could not be revoked. The case is under investigation.

### Tax litigation

We have the following to say about the litigation with the Tax Authorities.

On 22 December, the Lombardy Regional Tax Office - Large Tax Payers Office served tax assessments on the Bank for the year 2010, for IRES, IRAP and VAT.

The notices of assessment relating to IRES and IRAP follow the discussions with the Lombardy Regional Tax Office - Large Tax Payers Office (on which information was given in the notes to the 2014 financial statements), to change the allegations of artificial foreign domicile of the subsidiaries CPC and Rovere - according to the reports on findings notified by the Tax Police, Unit of Milan, Group I for the Protection of Revenues - 1st Section Complex Checks - into findings on the subject of transfer pricing versus the Bank.

In particular, the findings concern the Bank's failure to recharge the so-called "coordination costs" to Rovere and CPC and Rovere's failure to rebate management fees to the Bank.

As a result of these investigations, the Tax Office has fined the Bank as follows:

| year | tax | additional tax | penalties (reduced to one sixth) | interest at 31.12.2015 | total |
|---|---|---|---|---|---|
| 2010 | IRES | 799 | 133 | 127 | 1,059 |
| | IRAP | 140 | | 22 | 162 |
| **Total** | | **939** | **133** | **149** | **1,221** |

The Bank decided to accept these assessments and paid the amounts requests according to the terms.

The amount of Euro 1,221 thousand was recognised as costs for higher taxes, penalties and interests calculated at 31/12/2014 (for a total of Euro 1,188 thousand), which was debited to the provision for risks and charges that had been set up in prior years.

The assessment relating to VAT, on the other hand, concerns the liability to tax of the fees charged by the Bank to the asset management company for custodian bank services for the years 2006, 2007, 2008 and 2009 (as disclosed in the notes to the preceding financial statements). This reflects the terms and conditions of the agreements reached on the subject between ABI (the Italian Banking Association) and the Tax Authorities, as contained in the Ministerial Resolution n°97/E of 17 December 2013, which generally provide for the establishment of an increased taxable income that corresponds to 28.3% of the fees charged to the management companies, without applying any sanctions on the basis of the objective interpretative uncertainty of the original regulation.

As a result of this investigation, the Tax Office has fined the Bank as follows:

| year | tax | additional tax | penalties | interest at 31.12.2015 | total |
|---|---|---|---|---|---|
| 2010 | VAT | 140 | 24 | | 164 |
| **Total** | | **140** | **24** | | **164** |

The Bank decided to accept this assessment as well and paid the amounts according to the terms. The VAT and interest amounts paid were recharged to the asset management companies in accordance with the provisions of art. 60 para. 7 of Presidential Decree n°633/1972.

## Quantitative information

The number of detrimental events recorded by the Group in the course of 2015 comes to 1049. 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, law s or company policies (excluding incidents of discrimination), involving at least one member of the bank | 3 | 0.29% | 33 | 0.68% | 33 | 0.70% | - | 0.00% |
| EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, law s or company policies (excluding incidents of discrimination) perpetuated by third parties | 31 | 2.96% | 175 | 3.64% | 157 | 3.40% | 18 | 10.30% |
| EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment law s and contracts on health and safety in the w orkplace, and compensation for injury or incidents of discrimination | 2 | 0.19% | 8 | 0.17% | 8 | 0.20% | - | 0.00% |
| RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken w ith customers (including fiduciary requirements and adequate information on investments) | 191 | 18.21% | 3,404 | 70.60% | 3,404 | 72.60% | - | 0.00% |
| DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank | 5 | 0.48% | 5,359 | 0.11% | 4 | 0.10% | 1 | 18.98% |
| BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections | 3 | 0.29% | 124 | 2.57% | 13 | 0.30% | 111 | 89.59% |
| EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT | 814 | 77.60% | 1,072 | 22.23% | 1,072 | 22.80% | - | 0.00% |
| **TOTAL Banco Desio e della Brianza** | **1,049** | **100.00%** | **4,821** | **100.00%** | **4,691** | **100.00%** | **130** | **2.70%** |

The gross operating loss comes to € 4.82 million, for which prudent provisions were made during the year of € 4.07 million. Of the total gross loss, an amount was recovered of € 0.13 million, resulting in a net loss of € 4.69 million.

# PART F - INFORMATION ON SHAREHOLDERS' EQUITY

## SECTION 1 – SHAREHOLDERS' EQUITY

### A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Bank.

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

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

### B. Quantitative information

**B.1 Shareholders' equity: breakdown**

| Captions/Amounts | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 1. Share capital | 67,705 | 67,705 |
| 2. Share premium reserve | 16,145 | 16,145 |
| 3. Reserves | 708,128 | 676,423 |
| - revenue reserves | 708,128 | 675,108 |
| a) legal reserve | 84,504 | 81,206 |
| b) statutory reserve | 489,417 | 469,733 |
| c) reserve for treasury shares | | |
| d) other | 134,207 | 124,169 |
| - other | | 1,315 |
| 3.bis Advance dividends | | |
| 4. Equity instruments | | |
| 5. (Treasury shares) | | |
| 6. Valuation reserves | 22,623 | 24,511 |
| - Financial assets available for sale | 424 | 3,048 |
| - Property, plant and equipment | | |
| - Intangible assets | | |
| - Foreign investment hedges | | |
| - Cash-flow hedges | 63 | |
| - Exchange differences | | |
| - Non-current assets and disposal groups held for sale | | |
| - Actuarial gains (losses) on defined-benefit pension plans | -760 | -1,433 |
| - Portion of valuation reserves relating to investments carried at equity | | |
| - Special revaluation law s | 22,896 | 22,896 |
| 7. Net profit (loss) for the period | 37,445 | 32,986 |
| **Total** | **852,046** | **817,770** |

The change in “Revenue reserves - Other” compared with the previous year mainly includes the reserves recognised in equity:

– 9,228 thousand euro for the difference between the net assets of the business contributed by the Parent Company Banco Desio to Banca Popolare di Spoleto and the economic value of the transaction;
– -300 thousand euro for the difference between the net assets of the Milan branch acquired from Banca Popolare di Spoleto and the selling price.

Both transactions have been accounted for in accordance with Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements"

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

| Assets/Amounts | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | 3,990 | -1,925 | 3,559 | -656 |
| 2. Equity instruments | 397 | | 397 | |
| 3. UCITS units | 671 | -2,709 | 939 | -1,191 |
| 4. Loans | | | | |
| **Total** | **5,058** | **-4,634** | **4,895** | **-1,847** |

**B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year**

| | Debt securities | Equity instruments | UCITS units | Loans |
|---|---|---|---|---|
| **1. Opening balance** | **2,903** | **397** | **-252** | |
| **2. Positive changes** | **4,218** | | **297** | |
| 2.1 Fair value increases | 3,686 | | 209 | |
| 2.2 Reversal to income statement of negative reserves | 341 | | 88 | |
| - from impairment | | | | |
| - from disposals | 341 | | 88 | |
| 2.3 Other changes | 191 | | | |
| **3. Negative changes** | **-5,056** | | **-2,083** | |
| 3.1 Fair value decreases | -1,796 | | -1,607 | |
| 3.2 Impairment adjustments | | | | |
| 3.3 Reversal to income statement from positive reserve: from disposals | -3,170 | | -441 | |
| 3.4 Other changes | -90 | | -35 | |
| **4. Closing balance** | **2,065** | **397** | **-2,038** | |

**B.4 Valuation reserves related to defined-benefit pension plans: changes of the year**

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 673 thousand (net of the related tax effect of 255 thousand euro) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

## SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

### 2.1 Own Funds

#### A. Qualitative information

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

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes.

The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

As of 31 December 2015, the own funds of the Banco di Desio e della Brianza consist of:

*(amounts in thousands of Euro)*

| Description | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Common Equity Tier 1 (CET 1) | 829,811 | 788,137 |
| Additional Tier 1 capital (AT1) | 3,576 | 5,492 |
| Tier 2 capital (T2) | 218,223 | 119,334 |
| **Total Own Funds** | **1,051,610** | **912,963** |

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

**Tier 1 capital**

**1. Common Equity Tier 1 - CET 1**

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

**2. Additional Tier 1 - AT1**

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

**3. Tier 2 - T2**

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

**B. Quantitative information**

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **A. Common Equity Tier 1 (CET 1) prior to application of prudential filters** | **833,728** | **800,902** |
| of which: CET 1 capital instruments subject to transitional provisions | - | - |
| B. CET 1 prudential filters (+/-) | -289 | -773 |
| **C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)** | **833,439** | **800,129** |
| **D. Items to be deducted from CET 1** | **2,993** | **10,377** |
| E. Transitional provisions – Impact on CET 1 (+/-) | **-635** | **-1,615** |
| **F. Total Common Equity Tier 1 (CET 1) (C** – D +/-E) | **829,811** | **788,137** |
| G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions | **6,865** | **6,865** |
| of which: AT1 capital instruments subject to transitional provisions | 6,865 | 6,865 |
| **H. Items to be deducted from AT1** | **-** | **-** |
| I. Transitional provisions – Impact on AT1 (+/-) | **-3,289** | **-1,373** |
| **L. Total Additional Tier 1 (AT1) (G - H +/- I)** | **3,576** | **5,492** |
| **M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions** | **218,223** | **119,160** |
| of which: T2 capital instruments subject to transitional provisions | - | - |
| **N. Items to be deducted from T2** | **-** | **-** |
| O. Transitional provisions – Impact on T2 (+/-) | **-** | **174** |
| P. Total Tier 2 (T2) (M - N +/- O) | **218,223** | **119,334** |
| **Q. Total Own Funds (F + L + P)** | **1,051,610** | **912,963** |

## 2.2 - Capital adequacy

### A. Qualitative information

Banco Desio's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 79.04% of the Bank's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.34% and 20.75%, respectively, of Own Funds.

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

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

- CET 1/risk-weighted assets 15.775%
- T1 /risk-weighted assets 15.843%
- Total Own Funds/risk-weighted assets 19.992%

These values are still higher than the minimum capital required, including the capital conservation buffer, as shown below:

- CET 1/risk-weighted assets 5.125%
- T1 /risk-weighted assets 6.625%
- Total Own Funds/risk-weighted assets 8.625%

At the end of the Supervisory Review and Evaluation Process (SREP), the Supervisory Authority defined the following minimum levels for the consolidated capital ratios:

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

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

## B. Quantitative information

### Capital adequacy ratios

| Categories/Amounts | Unweighted amounts | | Weighted amounts/ Requirements | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| **A. RISK ASSETS** | | | | |
| **A.1 Credit and counterparty risk** | **8,920,421** | **9,705,091** | **4,703,340** | **5,215,768** |
| *1. Standardised methodology* | *8,919,883* | *9,704,448* | *4,702,803* | *5,215,125* |
| *2. Methodology based on internal ratings* | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| *3. Securitisations* | *537* | *643* | *537* | *643* |
| **B. CAPITAL ADEQUACY REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | **376,267** | **417,261** |
| **B.2 Risk of credit valuation adjustment** | | | **69** | **66** |
| **B.3 Regulatory risk** | | | | |
| **B.4 Market risks** | | | **2** | **1** |
| *1. Standardised methodology* | | | *2* | *1* |
| *2. Internal models* | | | | |
| *3. Concentration risk* | | | | |
| **B.5 Operational risk** | | | **44,480** | **43,560** |
| *1. Basic approach* | | | *44,480* | *43,560* |
| *2. Standardised approach* | | | | |
| *3. Advanced approach* | | | | |
| **B.6 Other items** | | | | |
| **B.7 Total precautionary requirements** | | | **420,818** | **460,887** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 5,260,230 | 5,761,092 |
| C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio) | | | 15.78% | 13.68% |
| C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) | | | 15.84% | 13.78% |
| C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) | | | 19.99% | 15.85% |

# PART G – BUSINESS COMBINATIONS

## SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

During the year there were no business combinations, as regulated by IFRS 3 - *Business Combinations*,with impact on the individual financial statements of Banco di Desio e della Brianza S.p.A.

Note, however, that the following transactions were carried out with effect from 1 April 2015:

- contribution of a business unit consisting of 32 branches by Banco di Desio e della Brianza to Banca Popolare di Spoleto;
- sale of the Milan branch by Banca Popolare di Spoleto to Banco di Desio e della Brianza.

Business combination between entities under common control: these business combinations are excluded from the scope of IFRS 3. Given that the accounting treatment is not specifically regulated by IAS/IFRS, reference was made to prevailing practice and, in particular, to Assirevi's Preliminary Guidelines on IFRS (OPI no. 1) "Accounting treatment of business combinations of entities under common control in the financial statements and consolidated financial statements". In particular, since it was considered that these transactions did not have a significant influence on future cash flows of the net assets transferred, these have been accounted for at book value, recognizing the difference between the latter and the transaction values in equity.

## SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations were carried out after year-end.

## SECTION 3 - RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the year.

# PART H - TRANSACTIONS WITH RELATED PARTIES

## 1 - INFORMATION ON THE REMUNERATION OF MANAGERS WITH STRATEGIC RESPONSIBILITIES

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

## 2 - RELATED PARTY DISCLOSURES

The Internal Procedure for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" section.

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

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation;
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 Bank;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group during the period, there have been no transactions worth mentioning, other than those with Banca Popolare di Spoleto S.p.A. explained in the section on "Significant events" of the Report on Operations

Transactions with related parties are generally adjusted at market conditions or, where an appropriate reference to the market is not feasible (as in the case of Agreements for outsourcing services provided by the Parent Company to the subsidiaries), at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case that the company is interested in carrying out the transactions.

In this context, there are no transactions outstanding at 31 December 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 of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

***I - Parent company***

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & Stefano Lado SapA at Banco Desio amounted to Euro 180.1 million, of which Euro 179 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

[1] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure).

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

***II - Subsidiaries***

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year and during board meetings held prior to the date of approval of the financial statements for the year ended 31 December 2015, in compliance with the above Procedure:

| Nature of Transaction | Amounts/financial conditions (Euro) | Counterparty |
|---|---|---|
| Transfer - in line with the provisions in the Investment Agreement - by Banco Desio to BPS of a business unit consisting of 32 bank branches located in Italy (11 branches in Tuscany and 21 branches in Lazio). | Please read “Significant events” in the Report on Operations. | BPS |
| Sale of BPS's only branch in Milan to Banco Desio (the "Branch Sale"). | Please read “Significant events” in the Report on Operations. | BPS |
| Issue of a maximum of 11,104,626 “Banca Popolare di Spoleto S.p.A. 2015 – 2017 Warrants” to be assigned for free to the holders of BPS ordinary shares other than those of Banco Desio | Please read “Significant events” in the Report on Operations. | BPS |
| Service agreement between Banca Popolare di Spoleto and Banco di Desio e della Brianza S.p.A. | Amount for 2015 in favour of the Parent Company Euro 5,743,781.10 (plus VAT, where applicable) | BPS |
| Lease contract and agreement for the use of work stations | Annual payment and amount estimated for the activation of the work stations as detailed in the resolution | BPS |
| Overdraft facilities - operating limits | Euro 410,000,000 | BPS |
| Review of the service agreement between Banca Popolare di Spoleto and Banco di Desio e della Brianza S.p.A. | Amount for 2015 in favour of the Parent Company Euro 5,975,039.81 (plus VAT, where applicable) | BPS |
| Lease contract and agreement for the use of work stations | Annual payment and amount estimated for the activation of the work stations as detailed in the resolution | BPS |
| Review of the service agreement between Banca Popolare di Spoleto and Banco di Desio e della Brianza S.p.A. | Amount for 2015 in favour of the Parent Company Euro 4,909,339.59 (plus VAT, where applicable) | BPS |
| Joining the tax consolidation for the years 2015-2016-2017 | Conditions detailed in the resolution | BPS Fides S.p.A. |
| Overdraft facility | Overall increase from Euro 375,000,000 to Euro 405,000,000 | Fides S.p.A. |
| Revision of the economic conditions for the integrated Group treasury regarding Fides S.p.A. | Conditions detailed in the resolution | Fides S.p.A. |

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 9.4 of the Report on Operations under the caption “subsidiaries”.

***III – Associates***

At the year end, an investment was held in Istifid S.p.A of 35.93%, by virtue of which, Banco Desio is still the shareholder with a relative majority.

Banco Desio's contractual relations with Istifid SpA essentially consist of the provision of corporate services (keeping the shareholders' register, assistance at shareholders' meetings, advice on corporate compliance, etc.), charged at the usual cost for services of this kind.

These services are now excluded from the scope of application of the rules on Related Party Transactions in consideration of the sale of the business unit that provides such services on 16 January 2015 to Computershare S.p.A.

With regard to banking services provided by Banco Desio to Istifid SpA, at the end of the period payables (to customers) amounted to Euro 88.1 million, of which Euro 59.8 million relating to securities portfolios; A credit line of Euro 500,000 has been given to the company.

Please note that the payable and receivable balances also refer to relationships maintained by Istifid S.p.A as part of fiduciary mandates granted by third parties.

There is also an investment in the associate Chiara Assicurazioni S.p.A, in which a 32.7% interest is held.

At the end of the year, payables (to customers) amounted to Euro 58 million, of which Euro 57.5 million relating to securities portfolios; there are no outstanding payables held by the company, which has been given a credit line of Euro 10,000.

The contractual relationships with Chiara Assicurazioni S.p.A maintained by Banco Desio essentially consist of contracts for the distribution of insurance products in the non-life sector.

The amounts of assets/liabilities and income/costs arising from transactions with the aforementioned company are disclosed in Para. 8.4 of the Report on Operations under the caption “companies subject to significant influence”.

***IV - Transactions with Officers and parties related to them***

As for the granting of credit lines approved in 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 the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness.

The total amount granted in connection with the 32 positions existing at 31 December 2015 comes to some Euro 8 million and the related utilisations amount in total to some Euro 6 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2015 amounted to Euro 118.9 million in amounts due to customers (including approximately Euro 107.6 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with associates as per paragraphs I, II and III above.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

| **Balances at 31.12.2015 (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 |
| Amount drawn down | 6 |
| Funding transactions: | |
| C/c and d/r amount (a) | 11.3 |
| Amount of securities portfolios (b) | 107.6 |
| **Total (A+B)** | **118.9** |

With reference to the Supplementary Pension Fund for the Employees of Banco Desio, at the end of the year, payable balances amounted to Euro 1.9 million. There are no securities in portfolio nor credit lines outstanding.

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.

***Other transactions***

With respect to other significant transactions with Officers, as well as parties related to them, the following should be noted:

| Nature of Transaction | Board approval | Amounts/financial conditions (Euro) |
|---|---|---|
| Updated conditions applicable to deposits/lending involving Associated Persons (Related Parties and Connected Persons) pursuant to Arts. 53 and 136 of the CFA | 06.08.2015 | Rates, conditions and costs are detailed in the resolution |
| Updated expenses and commissions applicable to the security portfolios involving Associated Persons (Related Parties and Connected Persons) pursuant to Arts. 53 and 136 of the CFA | 22.10.2015 | Expenses and commissions as detailed in the resolution |

# PART I - EQUITY-BASED PAYMENTS

**Qualitative information**

## Equity-based payments - description

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving free allocation of ordinary shares of the Parent Company in favour of Banco Desio Group management, as approved by the Ordinary Shareholders' Meeting of 29 November 2011, note that a check has been carried out on the conditions for effective allocation of the shares relating to the 3rd and last grant cycle linked to the three-year performance period 2012-2015. With consolidated results for 2015, three-year gate targets of liquidity and assets have been positively achieved, and the ratio between the cumulative Consolidated Adjusted Result and the related Budget stood at the level required, pursuant to the Regulations of the Plan, the conditions for the bonus increase in capital are met as well as the delivery to 27 beneficiaries of a total of 89,823 Banco di Desio's ordinary shares and the recognition of an amount equivalent to 24,648 ordinary shares in favour of the Chief Executive Officer. Given that the direct and indirect costs and management complexity of this operation are related to a small increase in capital and considering also that the Regulations of the Plan do not provide for beneficiaries being subject to lock-up restrictions (so they could sell the benefit without any further delay), we thought it preferable to extend the payment of an equivalent amount to all beneficiaries. As we said, this approach is envisaged for executive directors in the Regulations of the Plan. With the execution of this substitute payment, the Stock Grant 2011-2013 Plan has to be considered in all respects concluded.

# Certification pursuant to art. 154-bis of Legislative Decree 58/98

Banco Desio

Gruppo Banco Desio

# CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Tommaso Cartone, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:
   – the adequacy of the administrative and accounting procedures for the preparation of the financial statements with respect to the Company and their
   – effective application

   of the administrative and accounting procedures for the preparation of the financial statements in the year 2015.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2015 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1 the financial statements:
   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
   b. agree with the books of account and accounting records;
   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer .

3.2 the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties faced by it.

*Desio, 11 February 2016*

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

# Auditors' report

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# INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

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

## Report on the Financial Statements

We have audited the accompanying financial statements of Banco di Desio e della Brianza S.p.A. which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, n° 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Banco di Desio e della Brianza S.p.A. as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which is the responsibility of the Directors of Banco di Desio e della Brianza S.p.A., with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2015. In our opinion the report on operations and the information included in the report on corporate governance referred to above is consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

*Signed by*
Maurizio Ferrero
Partner

Milan, Italy
March 15, 2016

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